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StepStone Real Estate House Views

Fall 2026 Report

20241204-4065867-12884273

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All data is as of November 2026, unless otherwise noted.

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Executive summary

Market themes & macro setting

Surge in interest rates could slow transaction activity and is causing repricing; stagflationary pressures from energy shock likely to continue

- Iran war, resurgent inflation and fiscal concerns driving short- and long-term rates higher globally
- Economies are generally resilient to energy shock, but ongoing war and damages point to persistent stress and downside risk
- AI investment supports growth, especially in the US, making its economy increasingly vulnerable to tech downturn
- RE pricing had corrected and is responsive to rates, so is moving along a changing cyclic bottom, generally attractively priced

Property outlooks

- Likely performance dispersion makes granular asset and manager selection increasingly important
- Macro themes such as deglobalization, war and AI drive markets, with substantial variation at the sub property type and local level
- Demand has generally exceeded expectations across most sectors and regions; falling supply is key tailwind going forward
- Necessity-based real estate remains favored (resi, industrial, certain retail); demographics boost senior housing and medical office
- Data center demand continues from strong cloud adoption and AI, supply constraints are growing, exit market not established

Preferred strategies

- Focus on quality assets with in-place durable income, emphasizing pockets of growth
- Core+, value-add deliver income with upside. Debt strategies also remain interesting, defensive
- Distress and need for capital solutions intensified by rate rise, can facilitate quality at a discount, offer outsized return potential

Portfolio construction

- Well priced vs other asset classes, real estate can provide growing income, diversification and inflation protection
- Enhance regional diversification as deglobalization advances, energy shock could create entry opportunities
- Fund valuations have not adequately adjusted so they are likely to continue to have declining returns, depressed distributions
- US open-ended fund deployment should emphasize funds with more dry powder to reduce exposure to inflated NAVs
- Don't miss current distress opportunity amid the noise – higher rates intensify stress and need for liquidity solutions; lean into proven managers with comparative advantage and less leasing, capex risk

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With pricing around cycle bottom, RE offers opportunity

2022

The trigger:

- Interest rates rose
- Prices fell
- Debt became too big

Now

- Prices moving along cycle bottom which is shifting with interest rates; current yields appealing
- Macro stress: high uncertainty, stagflation shock, deglobalization
- RE income growth outlook positive amid slowing supply
- Leverage and carrying values still not caught up
- Pent up liquidity needs, frustrated LPs, some signs of progress

Preferred strategies today:

Core+, value-add for in-place income, upside	Debt for income with downside mitigation	Solutions-oriented capital in high demand

Classic RE benefits matter:

Portfolio diversification	Current income	Inflation protection

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Market assessment



Cutting through the noise

Pricing attractive, solid income outlook, real opportunity despite value decline in existing holdings

Appealing entry opportunity: owners still need capital solutions

- Higher rates intensify market dislocation, adding pressure on capital structures and vehicles with liquidity needs but relatively healthy assets
  - Mood shifting to capitulation 4+ years after initial rate hikes
  - Many unresolved loans, with funding gap worsened by rate rise
  - Fund managers increasingly responding to investors' need for liquidity, long way to go
- Exit queues on open-ended funds still significant, leaving dominant core buyers sidelined and in need of liquidity
- Non-core distributions up, but still 40%[1] below normal, with a 33%[1] loss ratio on sales in the last six months, and still $800B[2] of assets held over 5 years

Income rising: get granular to generate alpha

- Lower prices lift beta: Yields are now trending toward 6% for better properties before income growth, leverage or alpha
- Income growth outlook rising with supply overhang mostly absorbed, low starts
- Pockets of above average growth by location and specific property type create opportunity
  - Supply constraints support outperformance
  - Demand differences matter, driven by macro themes –deglobalization, war/defense, AI, etc.
- Durable income can provide valuable risk management amid volatility and uncertainty

Concerns remain: the rear-view mirror is a big risk

- Prices down: Recent rate jumps are in process of translating to ~ 5% price decline after ~20-25%[3] drop post 2022 rate jump
- Fund NAVs well above current trading prices:
  - Fund valuations were too high before the latest rate rise, which suggests marks will decline
  - LPs, frustrated by low returns and low liquidity on prior investments - *especially if not recalibrating for higher yields* – risk sitting on the sidelines and missing today's market opportunity

1. StepStone SPI Reporting and SPI Research, as of Q2 2026. 2.Preqin Pro, RE primaries closed-ended funds, September 2026 as of Q4 25. 3. Green Street Commercial Property Pricing Index, October 2026. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

Investing in today's interest rate environment

RE pricing is responsive to changing rates. Trading volume often pauses as expectations adjust; speed of adjustment varies, with debt availability being a major factor

Paradox:

Legacy portfolios challenged, while entry is increasingly attractive

Existing assets:

- Values down (core yields up)
- Fund marks have been slow to adjust, which has delayed loss recognition and liquidity
- Challenges and workouts rise

New deployment:

- Lower prices
- Greater flexibility amid need for solutions capital
- Access to higher quality assets

Best practices amid high rates & volatility

Emphasize in-place income

- Income growth lifts values
- Quality of assets and managers optimizes income
- Diversification adds resilience

Prudent, well-structured leverage remains important

Negative cash flow poses real risk of asset loss; underwrite interest rates and rents realistically

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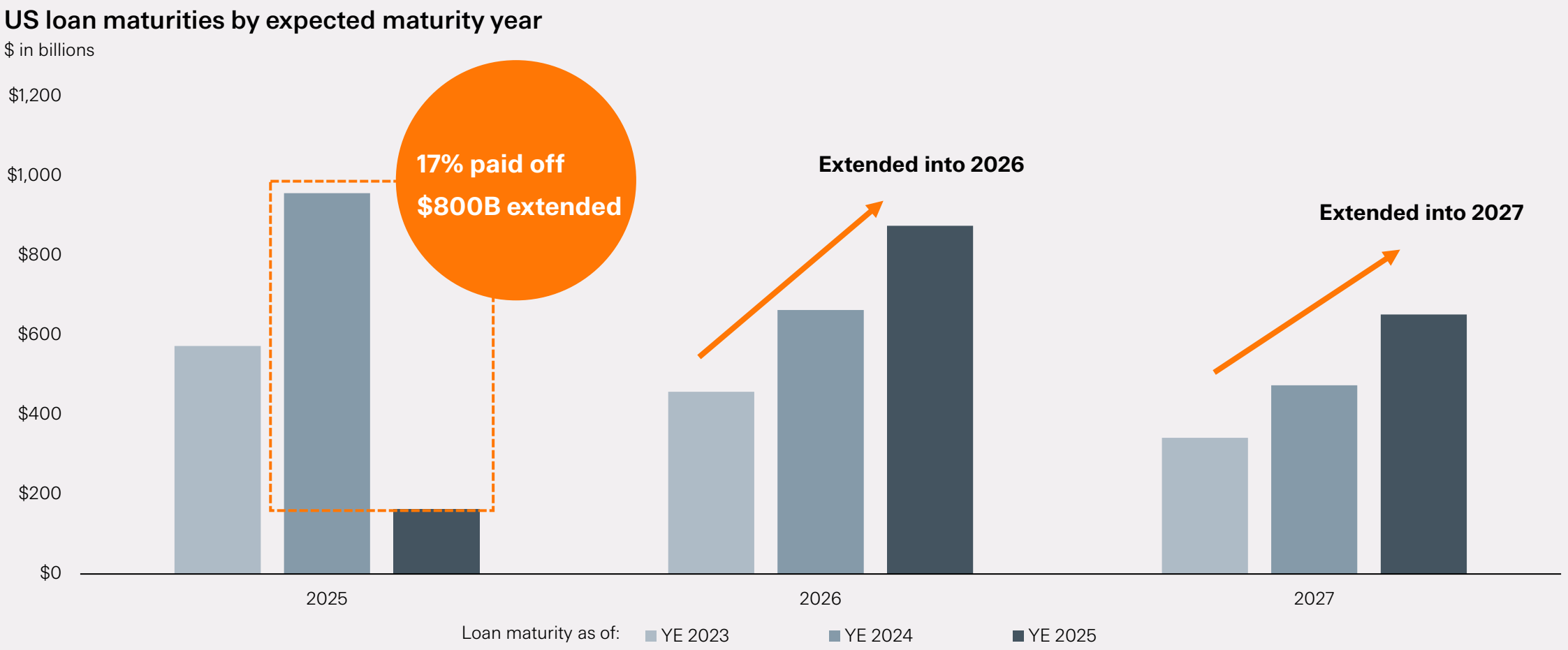
Why real estate: opportunity, resilience and income

Legacy loans still need solutions in higher rate environment



Source: MBA as of December 2025, updated annually.

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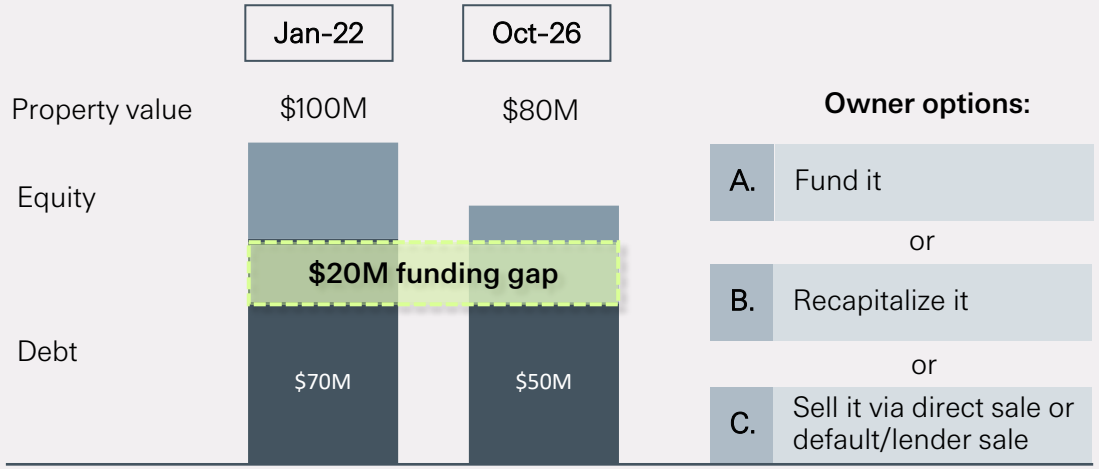
Funding gaps from rate rise drive recapitalizations



Owner options:

A. Fund it

or

B. Recapitalize it

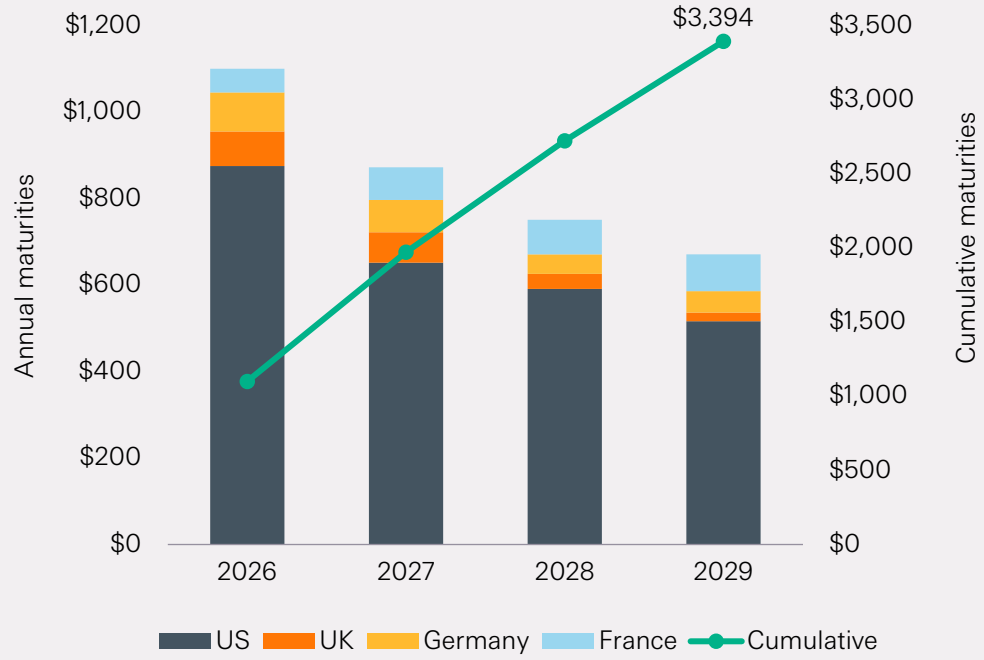
or

C. Sell it via direct sale or default/lender sale

NOI ($)	$4.5M	$4.5M
Cap rate	4.5%	5.6%
Cost of debt	2.8%	6.0%
DSCR	2.3x	1.5x
LTV	70%	62%

Debt maturities pressure owners to resolve funding gaps[1]

$ in billions



Source: StepStone data, October 2026. 1. MBA Loan Maturity Report, PGIM, December 2025, updated annually.

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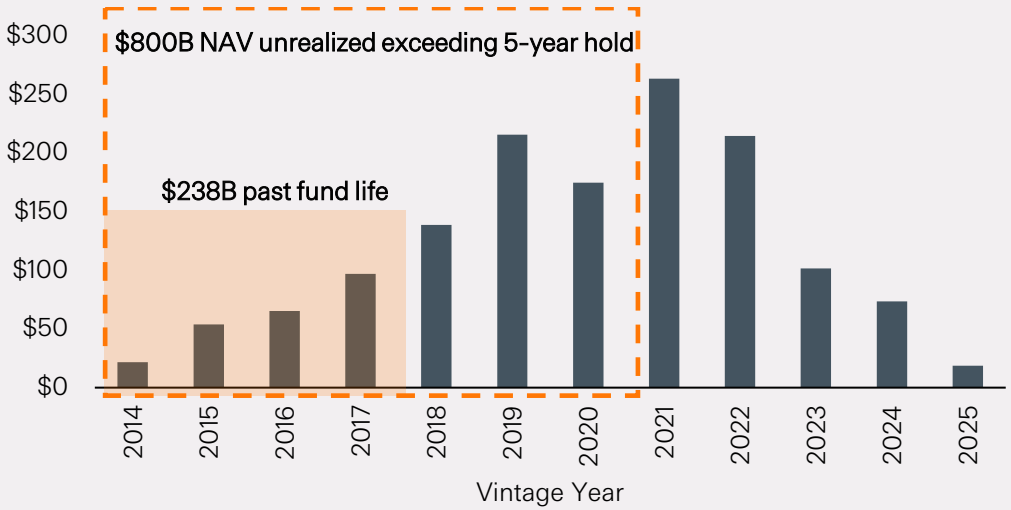
Backlog of asset sales by non-core funds starting to move

Over the past 6 months:

- 20% reduction in assets held over five years, still very large. This has lifted distributions, which are still 40% below normal[1]
- Average loss ratios on sales were 33%. 71% of the sales are from pre-2017 funds (no peak-pricing risk, higher DPI so more return already crystallized, and around end of fund life). Substantial challenges remain, especially in peak-pricing era funds[2]

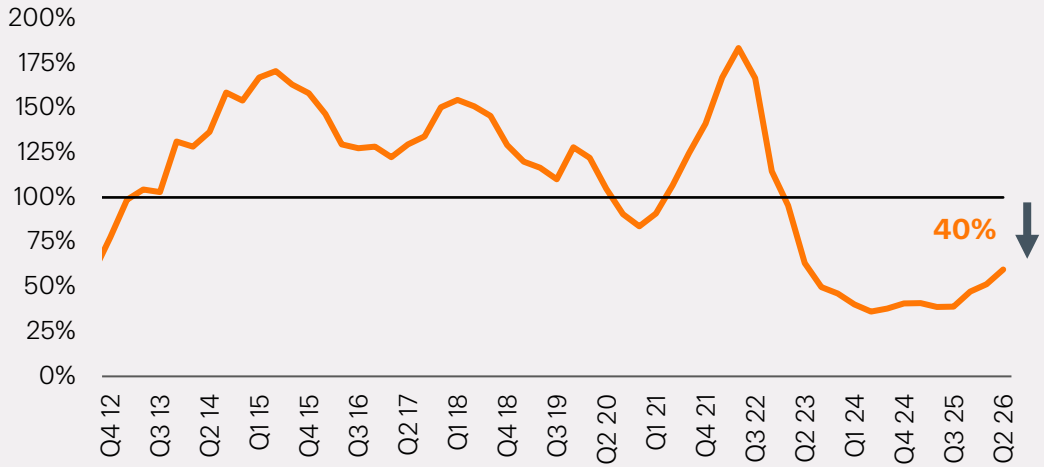
Global private real estate unrealized NAV by vintage[3]

$ in billions



RE non-core fund distributions[1]

Trailing 12-month as % of long-term average



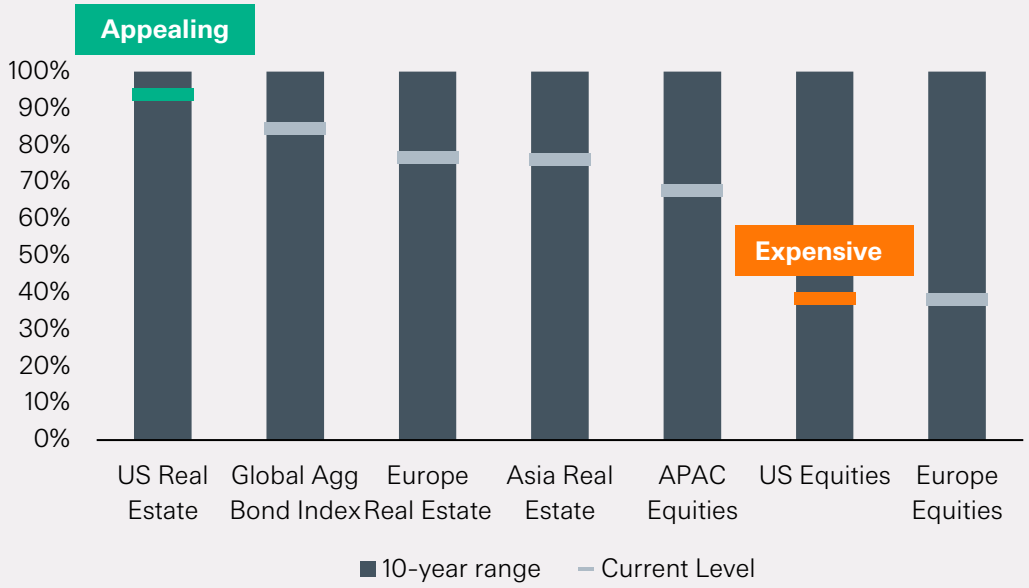
Source: 1. StepStone SPI Reporting, value-add and opportunistic funds, as of Q2 26. 2. For more details, please refer to StepStone Real Estate - Real Estate Liquidity Insights. 3. Preqin Pro, October 2026 as of Q1 26, Real Estate closed-ended primary funds. $800B NAV unrealized exceeding 5-year hold includes vintages 2010-2020.

Real estate pricing relatively attractive

- Real estate is repricing to reflect today's realities, making it relatively attractive from a value perspective

- With low correlation to equities, private real estate can also provide portfolio diversification

Relative value comparison of current vs 10-year trading range based on multiple/cap rate[1]



Correlation matrix, 30 years as of Q2 2026[2]

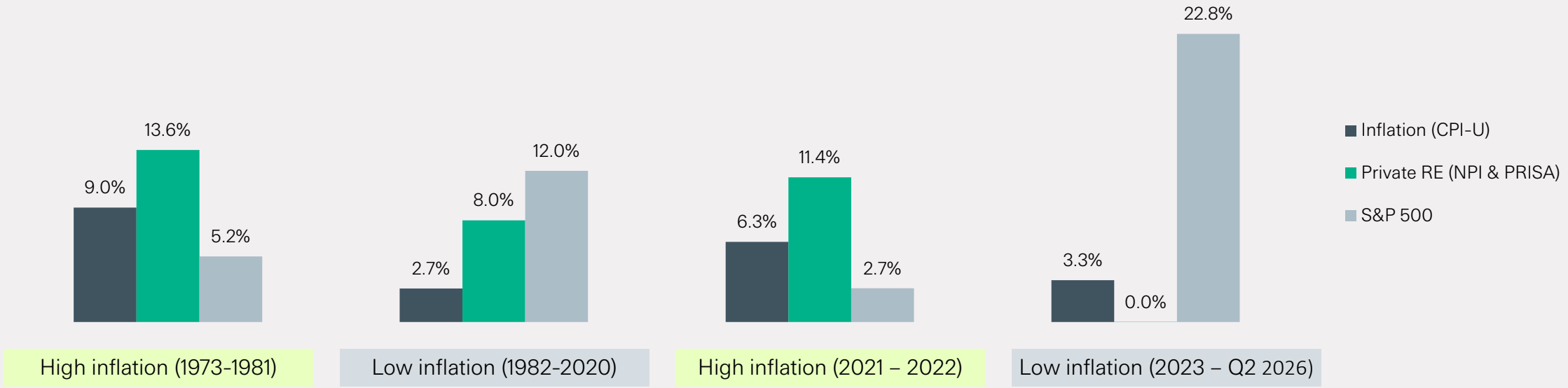
	CORE RE	NON-CORE RE	NAREIT	S&P 500
Core RE: NFI-ODCE, net of fees	1.00			
Non-core RE: Burgiss, net of fees	0.77	1.00		
Public RE: FTSE NAREIT, all REITs	0.12	0.34	1.00	
S&P 500	0.03	0.33	0.63	1.00
US AGG bond index	(0.17)	(0.08)	0.22	(0.08)

1. The measure shows where the current cap rate falls within its 10-year range. A score of 0% represents the 10-year minimum cap rate / highest pricing and 100% represents the 10-year maximum / lowest pricing. A higher score indicates cap rates are closer to their 10-year highs (lower valuations / relatively cheaper), and vice versa. US real estate cap rates are at the 94th percentile of the past 10 years, indicating valuations are cheaper than roughly 94% of that time. Source: Real Capital Analytics, S&P, MSCI, Bloomberg L.P., J.P. Morgan Asset Management. Data as of September 2026. US Real Estate: All property type nominal cap rates (as of Q2 26), weighted by transaction volume. Europe Real Estate: European all property type cap rates (as of Q2 26), weighted by transaction volume. APAC Real Estate: Apac Pacific, excluding China, office, retail and industrial average cap rate (as of Q2 26). US equities: S&P 500 Fwd P/E ratio, Europe equities: Stoxx 50 Fwd P/E ratio, APAC equities: MSCI AC Asia Pacific Index Fwd P/E ratio (as of Q2 26). Global Agg Bond: Bloomberg global aggregate index, yield-to-worst, as of Q2 26. 2. Sources: NCREIF NFI-ODCE, MSCI Burgiss, CapIQ, Bloomberg, as of Q2 26.

Real estate protects portfolios during inflationary shocks

- Shocks are different from mundane CPI growth, and were historically very damaging to financial asset values
- Hard assets (incl RE) are a traditional source of portfolio protection; value is buffered by limited supply and income contracts
- The current, relatively low inflation period reflects RE adjusting to fair value after the interest rate jump, while the S&P posts extraordinary gains due to advent of AI

Private real estate performance in periods of high and low inflation
Annualized return / inflation



Sources: NCREIF, PRISA, FRED, CapIQ, October 2026.

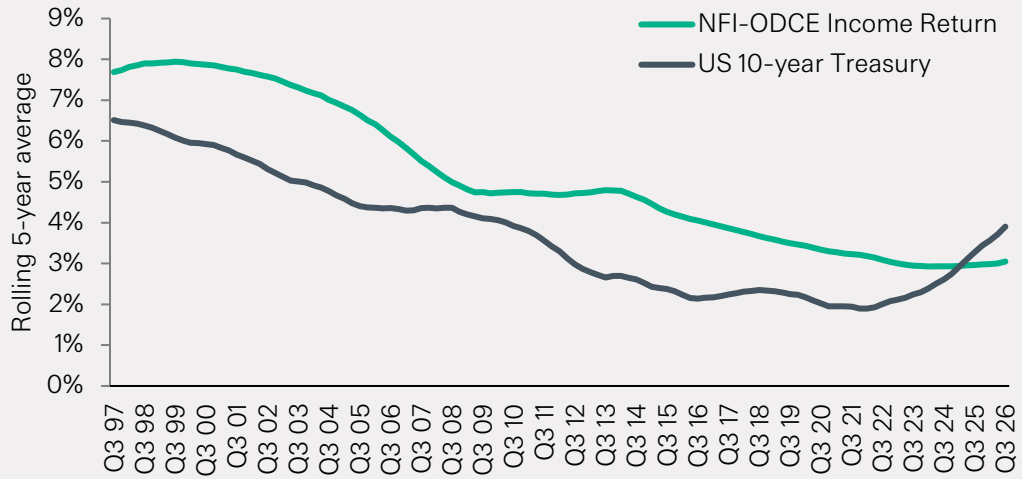
Income drives long-term property returns

- Long-term, core real estate returns are mostly from growing income streams
- Prices typically adjust to maintain property yields above government bonds. They are now adjusting down toward 6% yields, flexing with the interest rate environment.
- This cycle, ODCE marks have stayed above actual trading prices, reducing reported ODCE yield, and returns are at inflection, including losses but not much yield gain yet

NFI-ODCE net return mostly from income, Q3 26

Period	Income return	Appreciation return	Total return	10-year treasury
3-year	3.2%	-3.4%	-0.2%	4.3%
10-year	3.1%	0.6%	3.7%	2.9%
25-year	4.2%	1.4%	5.7%	3.2%
Since 1978[1]	**5.6%**	**1.2%**	**6.9%**	**5.7%**

NFI-ODCE income returns have broadly moved with 10-year treasury

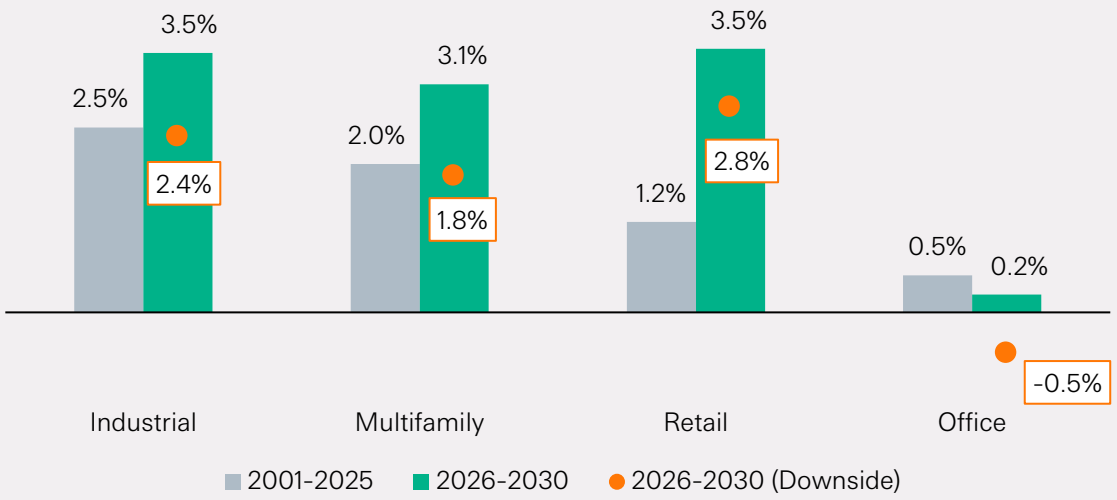


Source: NCREIF, CapIQ, as of Q3 26. 1. Inception of NCREIF NFI-ODCE index.

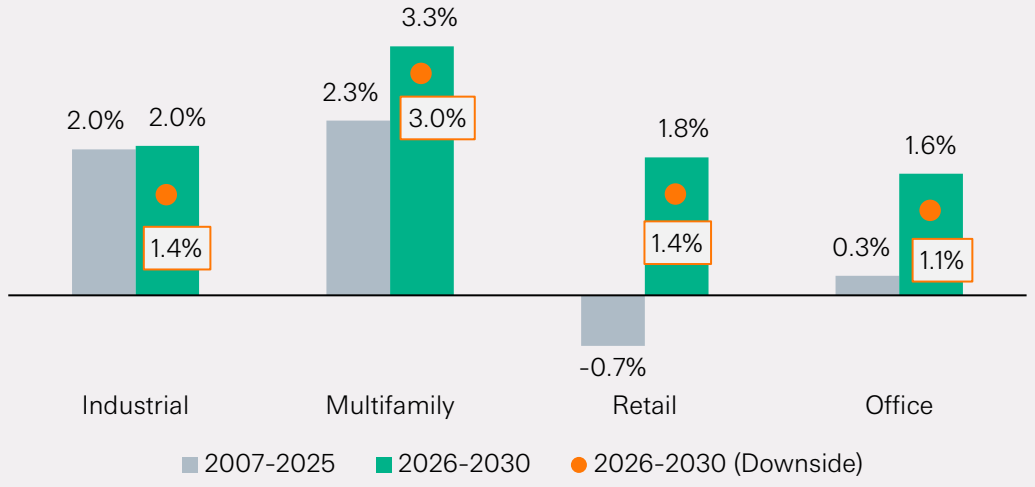
NOI growth forecasts rising and predominantly positive

- Bolstered by slowing supply in many areas, with both deliveries and starts down
- Industrial and retail NOI forecasts benefit from in-place leases rising to current market rates upon expiration
- Office weak but improving
- Geopolitical events, including Iran war, present more forecasting risk than usual

US annual NOI growth



Europe/UK annual NOI growth



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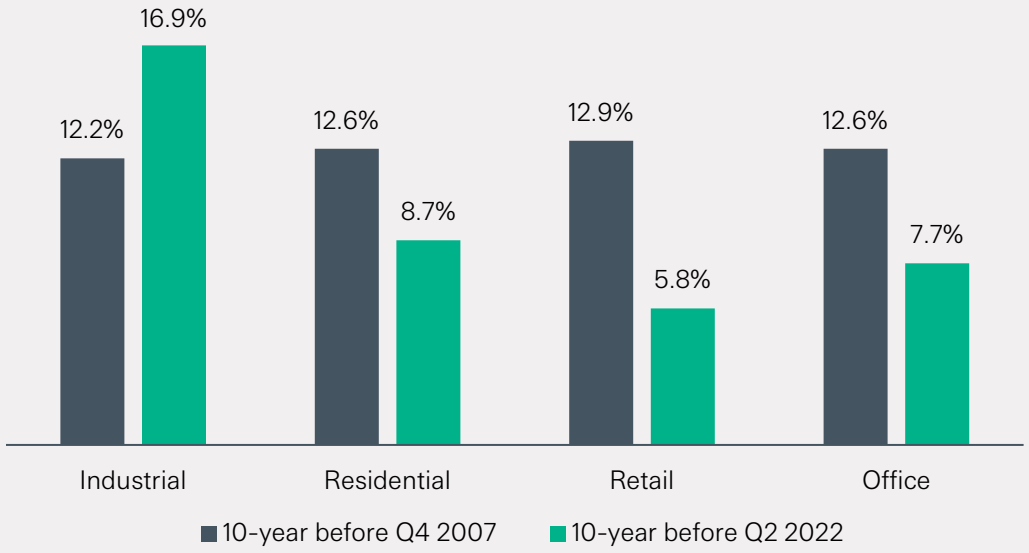
Get granular to generate alpha

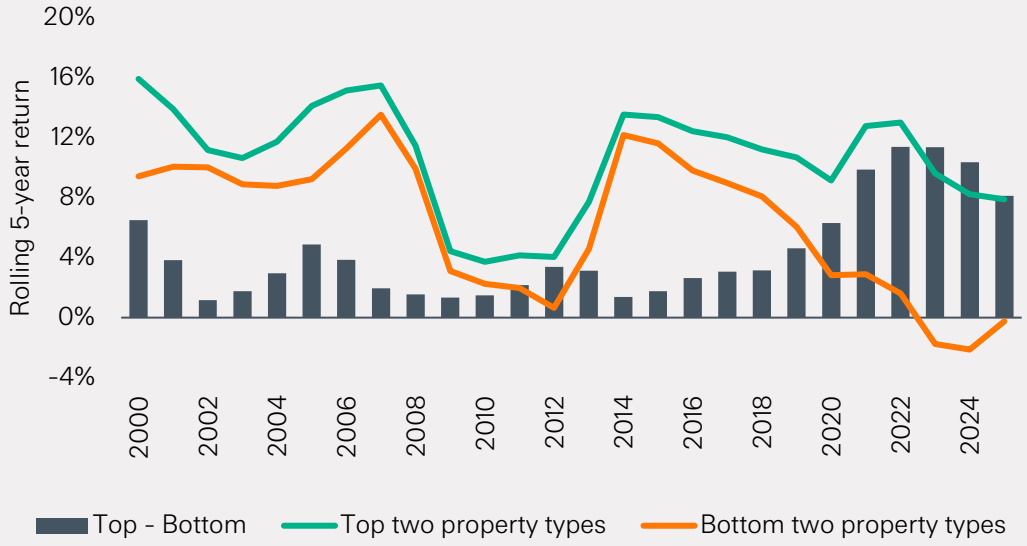
Getting exposures right leads to alpha

- Technology is driving major shifts in use and demand for space. For example, the onset of e-commerce boosted industrial and weakened retail, which took 10+ years to recover. Teams/Zoom reinforced COVID-led pullback in office demand, which is still evolving
- Investors who factor change into their portfolios and actively manage exposures can benefit, as shown by the performance divergence among major property types. Sub property type and location results show similar divergence that is likely to continue

10-year returns leading up to the last two cycle peaks shows significant recent divergence



Widening dispersion between top- and bottom-performing property types



Sources: US NCREIF NPI, subset to US NFI-ODCE holdings. As of Q4 2025.

Investors need to look under the hood

Generating alpha requires an understanding of macro themes, segments and market/submarket variability

	Macro drivers			Segment variability	Regional drivers	Pricing considerations
	Favorable	Neutral	Unfavorable			
Industrial	- E-commerce - Supply-chain resilience - Data center build-out and support	- GDP growth - Population growth	- Tariff/trade uncertainty - Diesel prices	- Long-term: Limited new supply supports small bay resilience - Recent: In US, big box recovery as tenants finally resolve deferred demand; near-term small bay softness due to tenant profile and competition from large, subdivided assets. In Europe, demand recovery strongest in infill	- Reshoring/ nearshoring - Data center supply chains - Logistics/supply chains - Population shifts	- Significant releasing spreads, somewhat higher yields, and stronger rent growth forecasts, which help mitigate the price of higher cap rates (esp vs MF)
Multifamily	- High homeownership costs - Income growth	- Job growth - Population growth	- Supply (esp. US) - Immigration policy - Risk of additional rent controls	- Long-term: Limited supply and sticky demand support Class B resilience - Recent: Class A leading recovery due to trading up & K-shaped economy. Class B impacted by immigration policy and weakening low- to middle-income consumer	- Barriers to supply (high in coastal/gateway, low in US sunbelt) - Affordability - Immigration policy - AI/tech clusters	- With less rent growth in the near term, and low cap rates, MF prices are more sensitive to rate changes - More likely to see near-term distress pricing among peak pricing buys

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Industrial: key market themes

		Overall appeal	Demand drivers				Rent growth	Supply constraints	Pricing
			Reshoring/ nearshoring	Trade/ logistics	Population growth	Data center adjacent			
Reshoring hotspots	Phoenix	🟡	🟢	🟢	🟢	🟢	🟢	🔴	🔴
	Columbus	🟢	🟢	🟡	🟡	🟢	🟢	🔴	🟢
	Raleigh-Durham	🟡	🟢	🟡	🟢	🟡	🟢	🔴	🟡
Distribution hubs	Inland Empire	🟡	🟡	🟡	🟡	🔴	🔴	🟡	🟢
	Dallas FW	🟡	🟢	🟢	🟢	🟢	🟡	🔴	🔴
	Chicago	🟢	🟡	🟢	🔴	🟢	🟢	🟡	🟡
	Atlanta	🟢	🟡	🟡	🟢	🟢	🟢	🔴	🔴
	Las Vegas	🔴	🟡	🟡	🟢	🟡	🟡	🔴	🟡
Port markets	Los Angeles	🔴	🟢	🟡	🔴	🔴	🔴	🟢	🟡
	New York/NNJ	🔴	🟡	🟡	🔴	🔴	🟡	🟢	🔴
	Houston	🟡	🟢	🟢	🟢	🟢	🟢	🔴	🔴
	Seattle	🔴	🟡	🔴	🟡	🔴	🔴	🟡	🟡
	Miami	🟡	🟡	🟡	🟡	🔴	🟡	🟡	🔴

🟢 Favorable 🟡 Neutral 🔴 Unfavorable

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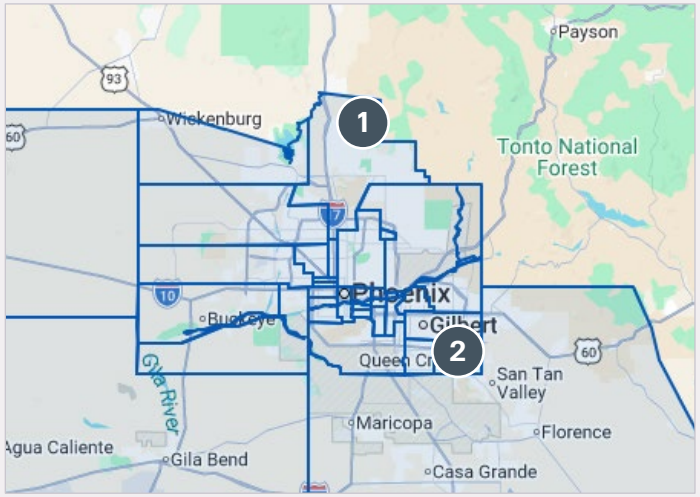
Macro themes translate to submarket outperformance

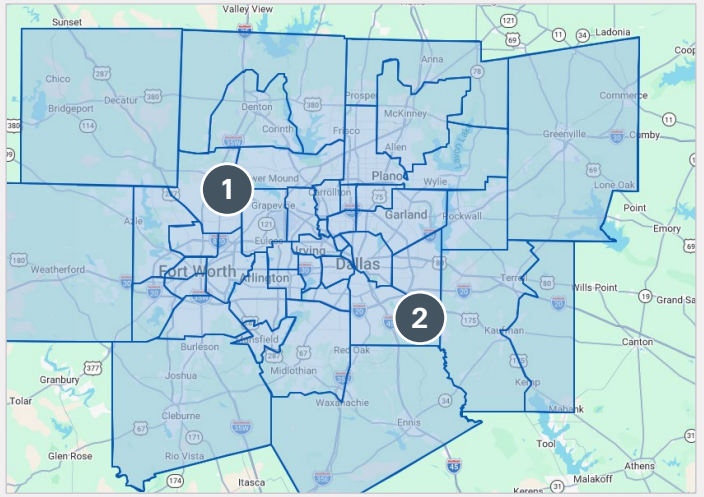
Phoenix – reshoring hotspot



1. TSMC (semiconductors) is a key driver in north **Phoenix/Deer Valley** submarket

2. Intel is driving demand in the **Chandler N/Gilbert** submarket

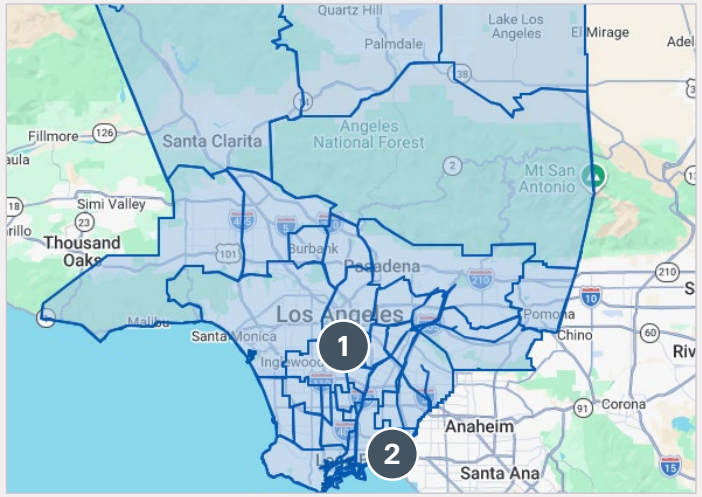
Dallas – distribution hub



1. **NE Tarrant/Alliance** submarket is supported by 4 transport modes, including the world's 1st purely industrial airport

2. Union Pacific's Dallas Intermodal Terminal is the anchor of **SE Dallas/ I-45** submarket

Los Angeles – port market



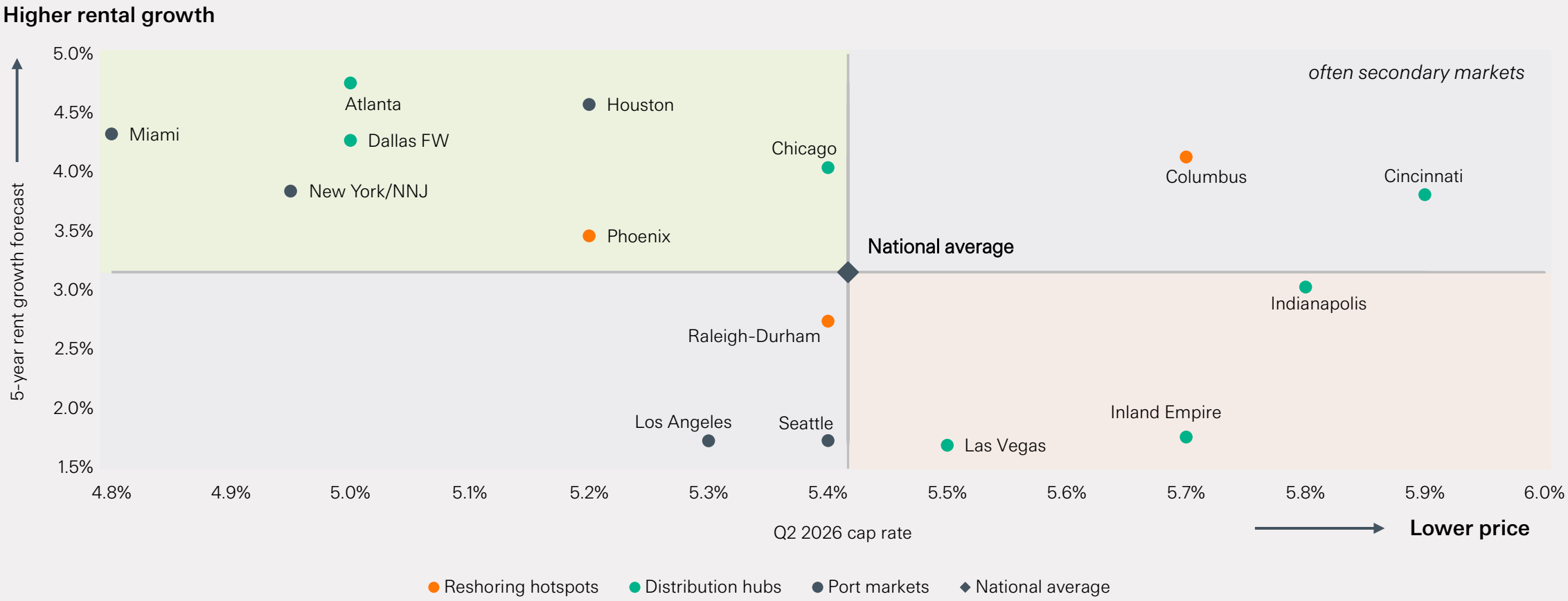
1. Infill logistics demand is driving **Commerce** submarket

2. Key drivers in **Long Beach** have shifted from port traffic to aerospace, defense and rocket manufacturing

Source: CoStar 2026. For illustrative purposes only. The opinions expressed herein reflect the current opinions of StepStone Real Estate as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

Industrial: know what you're paying for

Current cap rate vs 5-year rent growth forecast



Source: Green Street, Q2 26. 5-year annual rent growth forecast (Q2 26 – Q2 31).

Multifamily: key market themes

		Overall appeal	Demand drivers			Rent			Supply constraints	Pricing
			High home-ownership costs	Job growth	Income growth	Growth	Affordability	Regulatory risk		
Coastal/ gateway	New York	🟢	🟢	🟡	🟡	🟢	🔴	🔴	🟢	🔴
	Los Angeles	🟡	🟢	🔴	🟡	🟡	🟡	🔴	🟢	🟡
	Washington, DC	🔴	🟡	🔴	🔴	🔴	🟡	🔴	🟡	🟢
	Seattle	🟡	🟢	🟡	🟡	🟡	🟡	🔴	🟡	🔴
	Boston	🟡	🟢	🔴	🟡	🟢	🔴	🟡	🟡	🔴
	Chicago	🟢	🟡	🔴	🟡	🟢	🟡	🟡	🟢	🟢
	San Francisco	🟢	🟢	🟡	🟢	🟢	🔴	🔴	🟢	🔴
Sunbelt	Dallas FW	🟡	🟡	🟢	🟢	🔴	🟢	🟢	🔴	🟡
	Atlanta	🟡	🟡	🟡	🟢	🟡	🟢	🟢	🟡	🟡
	Phoenix	🟡	🟡	🟡	🟢	🔴	🟢	🟢	🔴	🟡
	Denver	🔴	🟡	🔴	🟡	🔴	🟢	🟡	🔴	🟢
	Austin	🔴	🟡	🟢	🟡	🔴	🟢	🟢	🔴	🔴
	Miami	🟡	🟢	🟢	🟢	🟡	🟡	🟢	🔴	🔴

🟢 Favorable 🟡 Neutral 🔴 Unfavorable

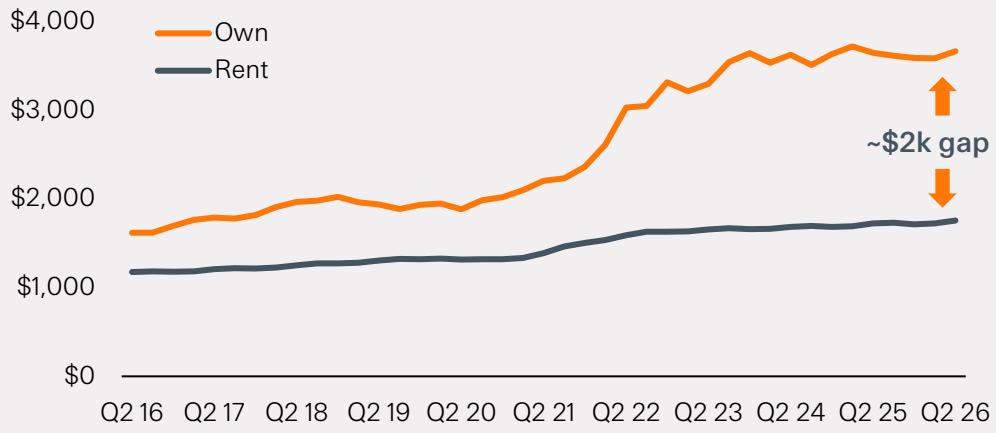
For illustrative purposes only. The opinions expressed herein reflect the current opinions of StepStone Real Estate as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. Markets are ordered by total asset value in each group, largest to smallest.

High cost of owning boosting multifamily demand

- Since 2016, cost of owning a home more than doubled, due to sharp increases in home prices, mortgage rates, and taxes/insurance. The cost of renting, meanwhile, increased 50%
- Homeownership costs have increased fairly consistently across metros. Rent growth has not been consistent, so markets with less rent growth have seen the greatest expansion in own vs. rent gap
- Supply is a major factor, with constrained for-sale supply supporting home prices while the recent wave of new multifamily supply limits rent growth

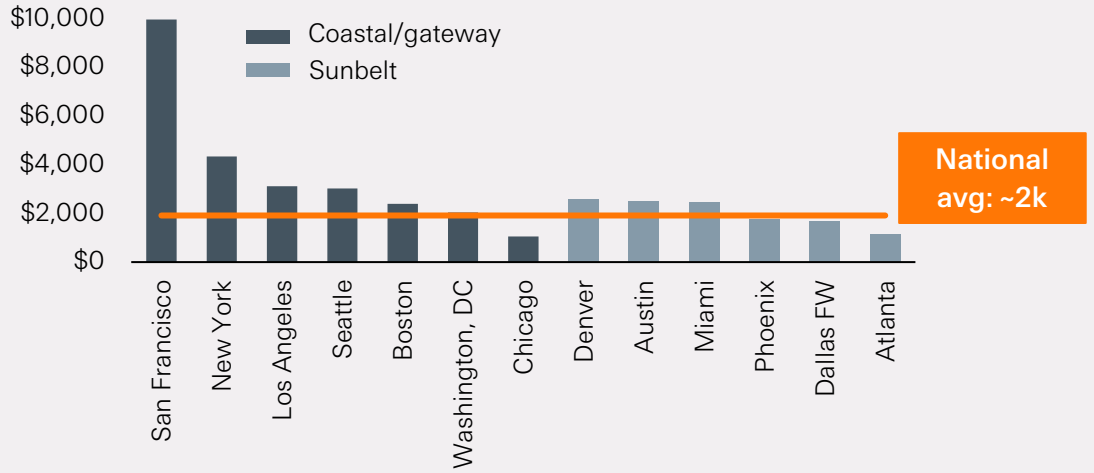
Owning vs renting gap has widened since 2016

Monthly cost ($)



Wide dispersion in own vs rent cost gap, led by coastal markets

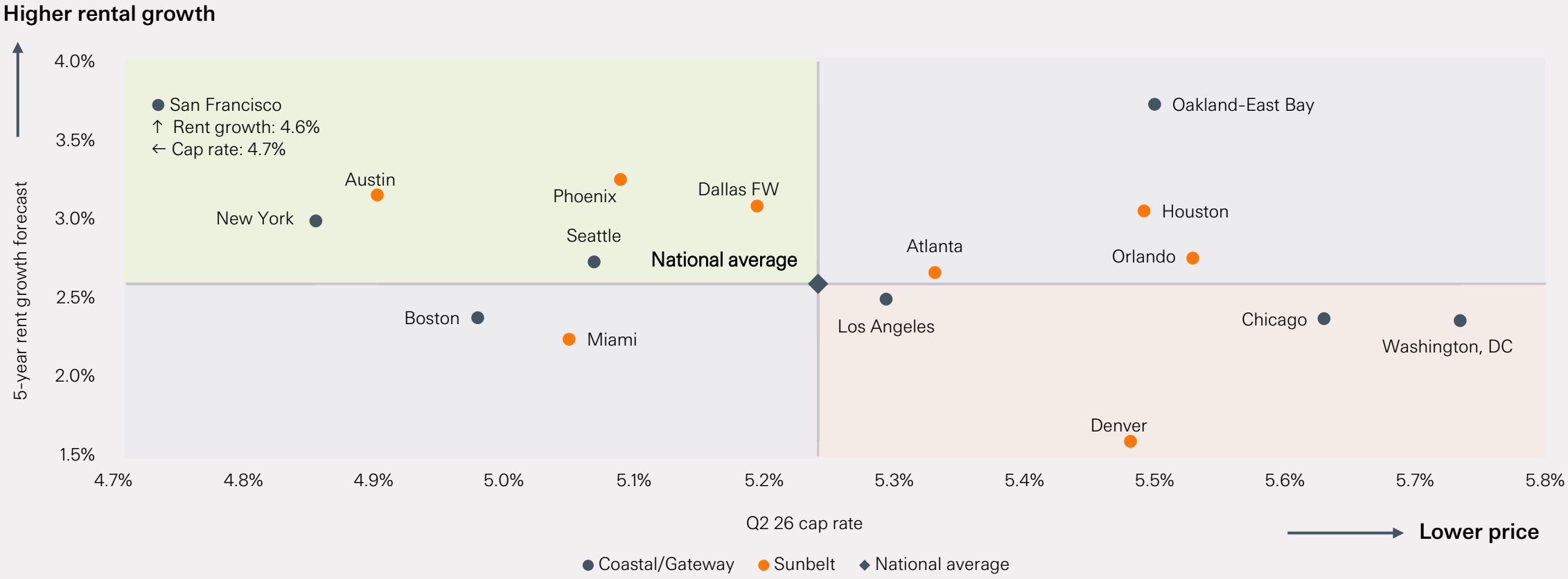
Monthly cost gap ($): own - rent



Source: CoStar (effective monthly rent as of Q2 26, Marcus & Millichap Research Services, Freddie Mac, National Association of Realtors, US Census Bureau. Mortgage payments based on median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI.

Multifamily: know what you're paying for

Current cap rate vs 5-year rent growth forecast

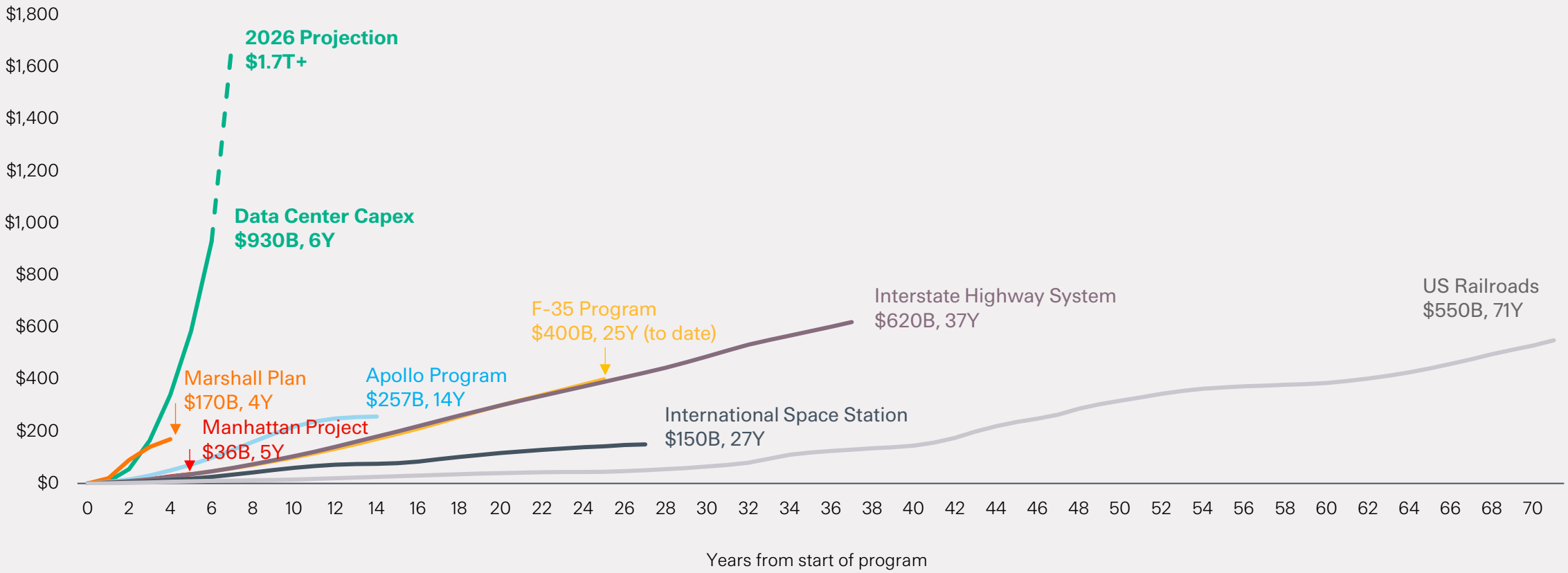


Source: Green Street, Q2 26. 5-year annual rent growth forecast (Q2 26 – Q2 31).

Data center spending surging

Data centers vs megaprojects capex spend, inflation adjusted

$ in billions



Source: Eastdil Secured, Company Reports, Epoch AI, FHWA, NASA, CRS, GAO, Brookings, October 2026.

Data centers low, growing share of CRE

Pros	- Driving significant adjacent industrial demand for construction, ongoing maintenance - While permitting, water and power are key constraints on data center development, competition for labor, materials and land can reduce supply of, and facilitate more rent growth for, other property types
Risks / unknown	- Exit market for stabilized assets unproven, with longer-term demand/supply patterns unclear as technology evolves. Creates risk of overpaying and obsolescence. - There is concern and debate that demand for capital around AI lifts systemic borrowing costs and risk
Investment considerations	- Investment returns mixed so far - Complex assets require significant expertise, also often very large so harder to diversify exposure - Participation across asset classes means investors need comprehensive view of exposure

Global data center exposure in real estate funds

As of Q2 26

	% of NAV	No of funds with exposure, diversified / specialist
ODCE	0.6%	7 / 0
All Core/Core+ OEF	2.8%	15 / 3
Non-Core	10.2%	30 / 3

Data center transaction activity

YTD 2026

	YoY change	% of all transactions	Volume in USD billions
Global[1]	180%	7.2%	$67.4
US	1132%	8.0%	44.4
Asia Pacific	24%	7.3%	14.3
Europe	-3%	4.8%	8.7

Source: NCREIF, MSCI Real Capital Analytics, SPI Reporting and Research, as of October 2026.
1. APAC land transactions excluded. Global totals are the sum of regional figures; excludes smaller markets pending Q3 2026 data updates.

Capital markets



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Income growth driving RE returns, repricing to higher rates

Total return

	2022-2024, cumulative	2025	H1 2026	Q3 2026
Public Indices (USD)				
Broad public equities: MSCI ACWI	18.9%	22.9%	11.5%	1.7%
Barclays Capital US Aggregate Bond Index	-7.0%	7.3%	0.6%	-3.5%
US Public RE – All Equity REITs	-12.4%	2.3%	14.9%	-6.1%
Global Public RE - EPRA/NAREIT	-14.8%	11.1%	9.4%	-5.5%
Commercial Property Price Indices (unlevered)[1]				
US - Green Street CPPI, w/ODCE Weights	-20.1%	1.8%	1.6%	1.3%
Europe/UK - Green Street CPPI, w/ODCE Weights	-23.8%	2.2%	0.1%	-1.7%
Core Fund Indices (levered)[2]				
US - NCREIF ODCE	-9.1%	2.9%	2.3%	1.7%
Europe/UK - INREV ODCE	-11.0%	3.7%	2.1%	0.9%
Asia - ANREV ODCE	5.1%	2.4%	1.6%	0.6%
Non-Core Fund Indices (levered)[3]				
Global - Burgiss VA/Opportunistic	-7.3%	2.2%	-0.3%	N/A

With continued equity market gains, investors under-allocated to RE. Public markets reprice faster, already showing impact of recent rate rise

Property trading prices starting to trade down in relation to latest interest rate rise; returns point to a sustained market bottom

Income growth expected to remain positive, but US marks lag prior price changes. Recent rate rise suggests lower returns ahead

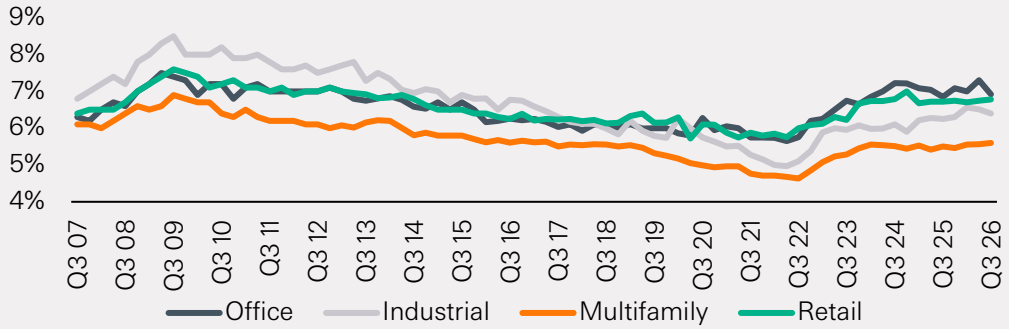
Limited adjustment in non-core valuations to date plus recent rate change implies lower returns on legacy portfolios ahead

The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. Sources: NCREIF, INREV, ANREV, Burgiss, Green Street, NAREIT, Bloomberg and FTSE, StepStone SPI Reporting, October 2026. Note: In aggregate, public REITs are 43% allocated to major property types (retail, residential, industrial, and office) as of August 2026 according to NAREIT, compared to 87% exposure to major property types in the private Global Real Estate Fund Index produced by ANREV, INREV, and NCREIF as of Q2 26. 1. Green Street CPPIs as of Q3 26, w/ODCE Weights are reported in local currencies. US: A quality assets; Europe A and B quality. Q3 26 returns use Q2 26 ODCE weights due to reporting lag. 2. All Fund Indices' returns are net of fees and reported in local currencies. NFI-ODCE's LTV is 27% as of Q2 26. INREV and ANREV ODCE LTVs are 25% and 33%, respectively, as of Q2 26. Q3 26 returns are preliminary for ODCE indexes. 3. The average LTV for real estate non-core funds is 54% as of Q2 26, based on SPI reporting.

Rising interest rates compressed spreads

Spreads vary with many factors including income growth expectations. There is no measurable 'normal' spread supported by the data, and no data supporting the idea that low spreads 'should' rise

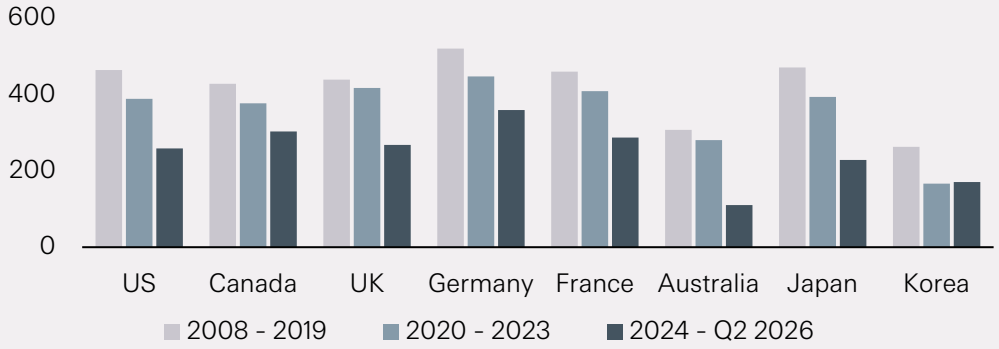
Median global cap rate trends by property type



Cap rate quartiles by largest property types, Q3 26

Region	Property type (volume leaders)	Bottom quartile		Median		Top quartile	
		Cap rate	YoY chg.	Cap rate	YoY chg.	Cap rate	YoY chg.
US	Multifamily	6.3%	+22 bps	5.6%	+12 bps	5.1%	+10 bps
	Industrial	7.5%	+19 bps	6.5%	+24 bps	5.7%	+24 bps
Europe / UK	Office	9.3%	+130 bps	7.6%	+108 bps	5.7%	+65 bps
	Industrial	8.3%	+62 bps	6.7%	+30 bps	6.2%	+79 bps

Overall cap rate spread to government bond yield by country (bps)[1]



Global cap rate spreads by country, Q2 26[1]

Country	Cap rate	Spread	15y avg spread	Delta
US	7.1%	250	419	-170
Canada	5.9%	276	403	-127
UK	7.3%	270	431	-161
Germany	7.7%	334	514	-181
France	7.0%	266	447	-181
Australia	5.7%	70	304	-235
Japan	4.1%	97	430	-332
Korea	4.0%	56	250	-195

Source: MSCI Real Capital Analytics, October 2026. Cap rates differ across data sources due to variations in methodology, asset quality, and market coverage. RCA reflects pricing from completed transactions across a broad range of commercial real estate assets by size, quality, and markets. Green Street's cap rates are model-derived estimates of current market value and are primarily based on large, institutional-quality assets typically owned by REITs and major institutional investors. 1. Office, Industrial, Retail.

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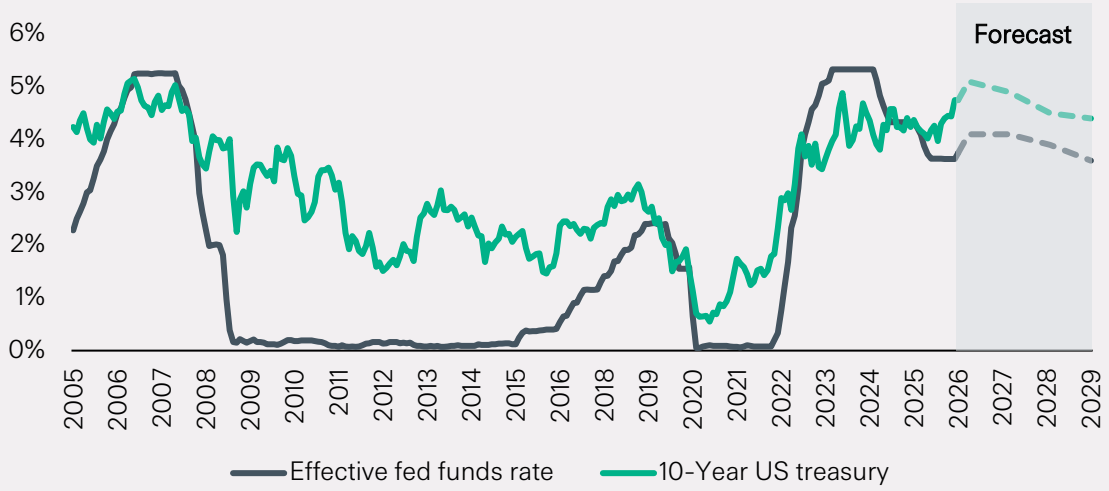
Interest rates rose again; likely to stay higher and volatile

- Iran war is driving uncertainty and inflation, adding upward pressure to rates also impacted by rising deficits and other factors
- 10-year interest rates now above long-term averages globally. Forecasters expect easing of rates over time except in Japan
- Sizeable, sustained rate decline most likely in event of recession
- Rates are more volatile and reactive to new data due to reduced fed guidance
- Low and falling rates for the 15 years prior to 2022 left market participants slow to adapt to the new interest rate environment

Fed funds rate vs 10-year treasury[1]



Avg 10-year govt bonds across different periods

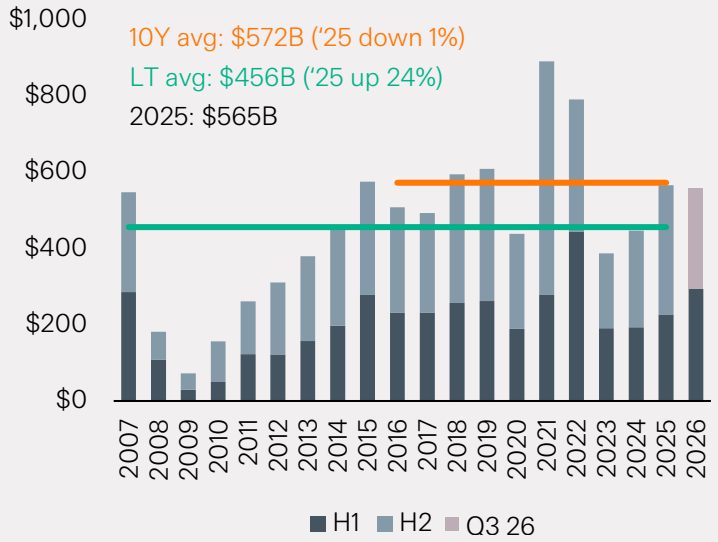
Periods	US	UK	France	Germany	Australia	Japan
2020 – 2022	1.8%	1.1%	0.5%	0.1%	1.9%	0.1%
1990 – Q3 2026	4.3%	4.6%	3.9%	3.5%	5.3%	1.7%
Current[2]	5.2%	5.5%	4.9%	3.5%	5.2%	2.9%
'26 forecast[3]	5.1%	5.2%	4.8%	3.4%	5.2%	3.1%
'27 forecast[3]	4.9%	4.9%	4.5%	3.2%	5.0%	3.2%

The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. Sources: CapIQ, FRED, Consensus Economics, Oxford Economics, Chatham, October 2026. 1. 10-year US Treasury forecast sourced from Consensus Economics, October 2026. 2. As of October 19th 2026. 3. Forecasts are from Consensus Economics as of October 2026.

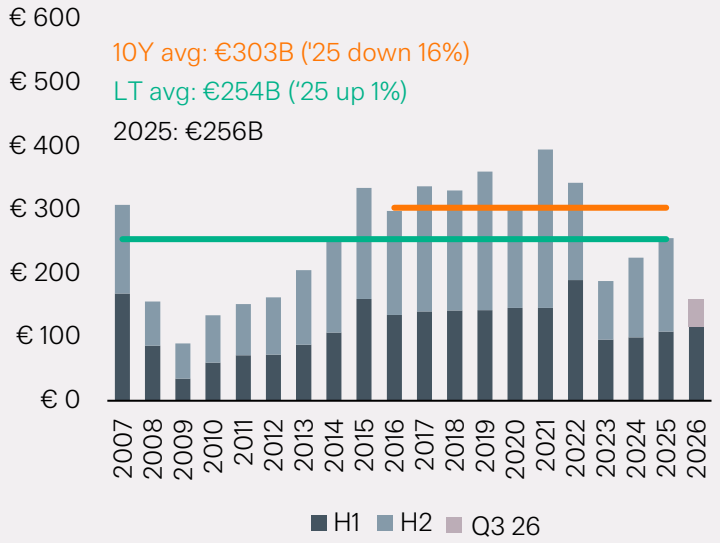
US, Asia transaction volumes healthy, but rates pose risk

- Strong YTD volumes globally through 3Q, with US up 52% YoY, APAC up 17% and Europe down 3%
- US volumes YTD have been boosted by mergers, including $70B AVB/EQR transaction in 3Q
- Sales by funds comprise <20% of broad market volume data YTD; they fell further and remain below long-term average
- Recent rate rises may slow volume as markets adjust; this can be compounded by uncertainty as the Iran war persists

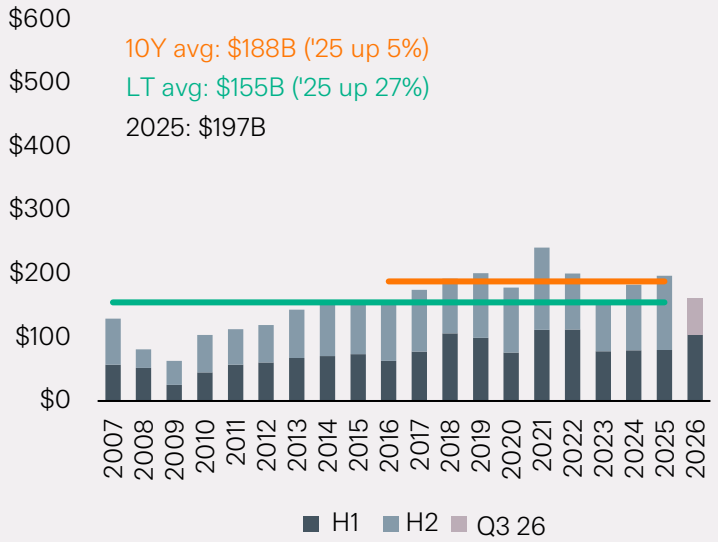
US annual transaction volume
$ in billions



Europe/UK annual transaction volume
€ in billions



APAC annual transaction volume[1]
$ in billions



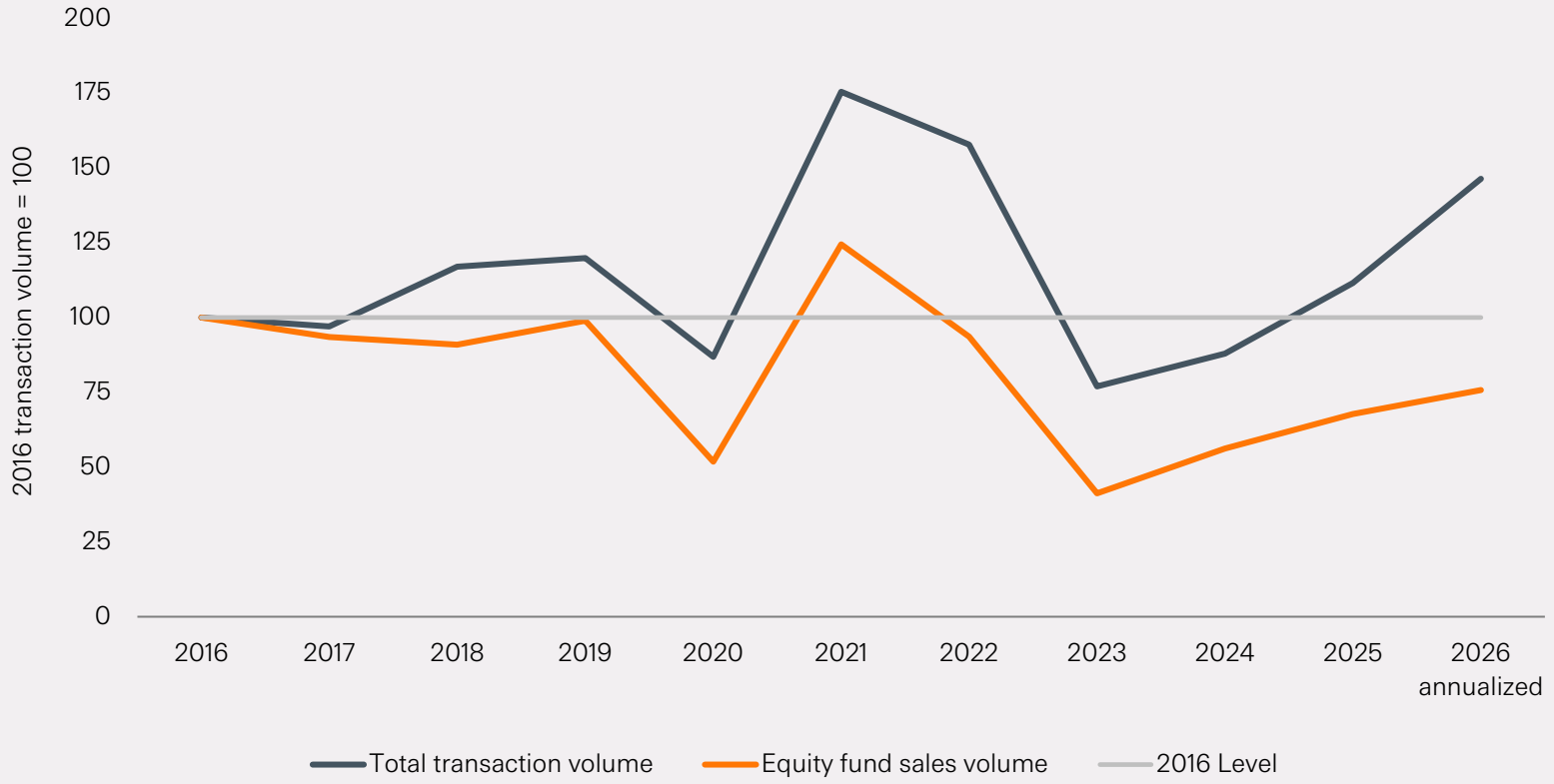
Source: MSCI Real Capital Analytics, November 2026. 1. APAC excludes land transactions.

Fund sales lag broader recovery in transaction volume

Overvaluation slows trading. Motivates holding in hopes of recovery instead of selling, which triggers losses

US transaction volume, 2016 indexed to 100

Asset sales by funds begin the period as 17% of broad market volume



Broad market volume

rose higher in extreme-low rate environment, recovered faster after rate rise

Asset sales by funds

lagging broad market volume trends

Source: MSCI Real Capital Analytics, Q3 26. Equity fund sales volume: transactions where institutional equity funds or open-ended funds were the seller

Property sector transaction drivers vary by region

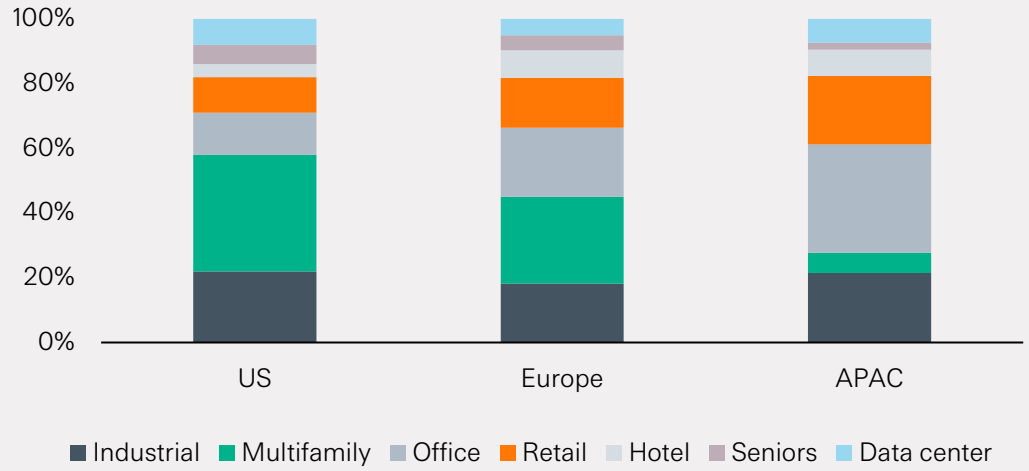
- In US, all sectors registered positive growth in trading volume, led by a significant jump in large MF sector, and high rates of change in smaller seniors and data center sectors
- In Europe, multifamily and seniors were the only sectors to see growth vs. prior year
- In APAC, all sectors were up except the small multifamily sector

- Multifamily is most active sector in US and Europe; nascent in APAC
- Office tops the list in APAC, but share is down across regions
- Data center remains a small share of total activity; 8% in US, 5% in Europe, and 7% in APAC

Global YoY change in transaction volume by sector
YTD through Q3 26

	US	Europe	APAC[1]
Industrial	41%	-8%	23%
Multifamily	63%	15%	-10%
Office	22%	-9%	24%
Retail	8%	-9%	42%
Hotel	25%	-19%	22%
Seniors	119%	55%	16%
Data center	1132%	-3%	24%
All sectors	52%	-3%	18%

Global sector mix of transaction volume
YTD through Q3 26[2]



Source: MSCI Real Capital Analytics, November 2026. 1. APAC excludes development sites and land transaction. 2. Global transaction volume sector mix reflects only the sectors shown in the chart; other sectors are excluded.

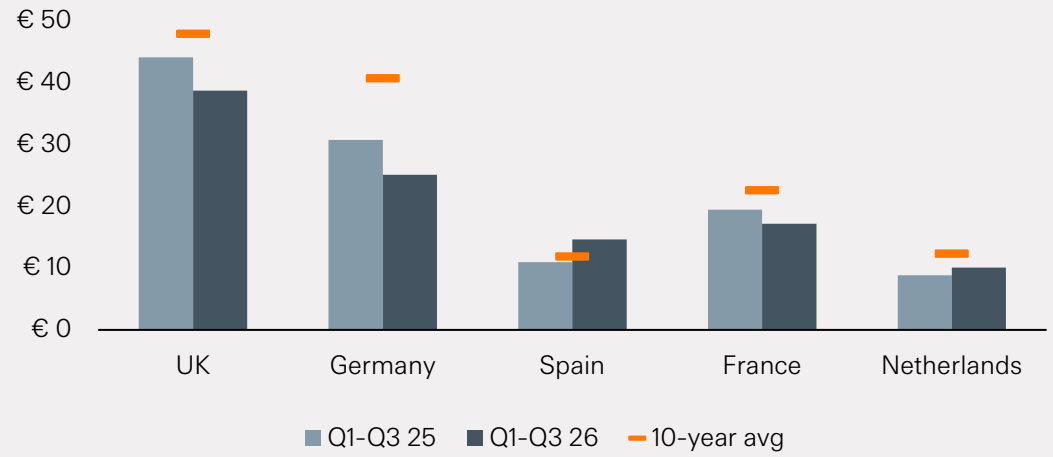
Europe's lower volume is both sector and market story

- Slowing pace of activity in top markets – UK, Germany, France – is weighing on regional totals, esp vs. long-term averages
- UK transaction volumes slowed, but still accounted for 24% of regional totals so far in 2026
- Spain moved into top 5 with 34% year-over-year gain in 2026

- Office is principal drag on activity vs. long-term average, and also the key drag vs. prior year. Partially offset by surging seniors and data centers, although latter slowed YoY
- Multifamily is now region's most active sector, with significant YoY gains in Spain, the Netherlands, and the UK
- Industrial sector will get significant boost early 2027 with $19 billion acquisition of Segro by Prologis

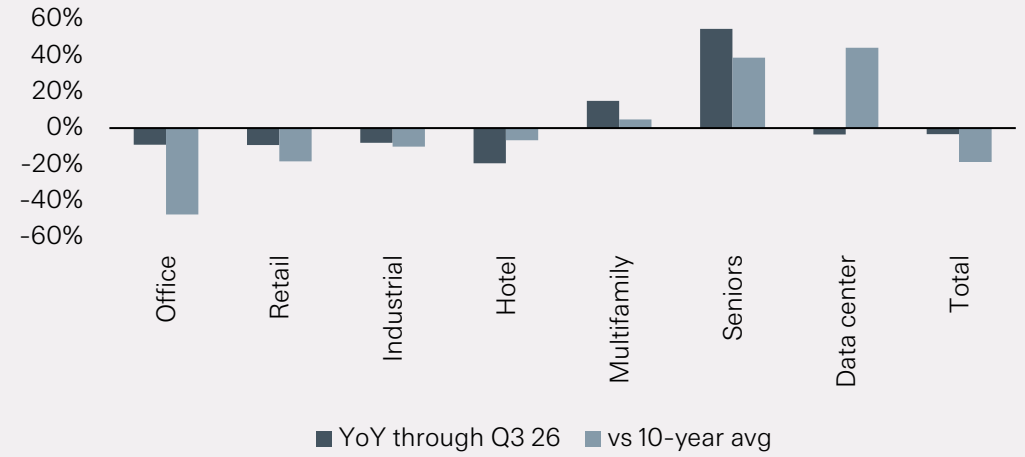
Europe/UK transaction volume by top 5 markets

€ in billions



Europe/UK transaction volume trends through Q3 26

Ranked by % vs. 10-yr avg. (low to high)



Source: MSCI Real Capital Analytics, Q3 26.

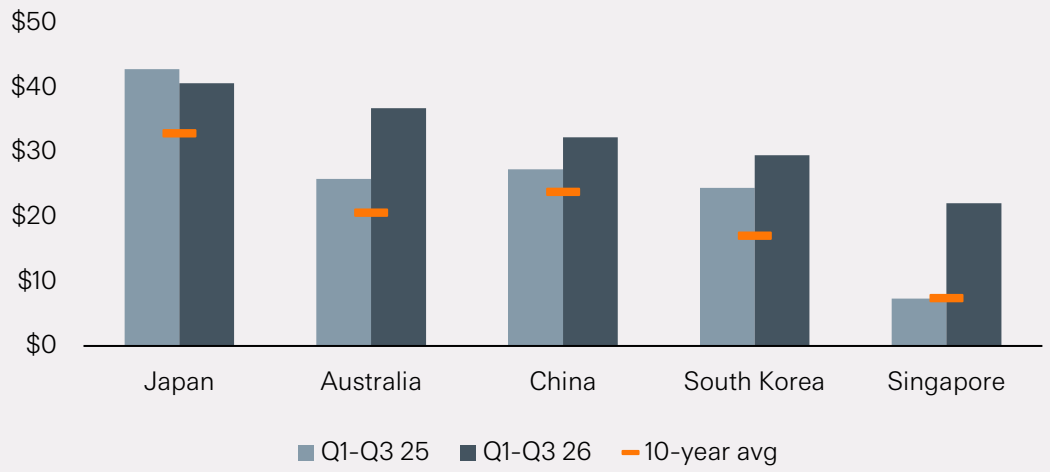
APAC strength consistent across markets, most sectors

- Higher borrowing costs leading to gradual moderation in Japanese volume, partially offset by strong fundamentals
- Volumes ahead of both last year and long-term averages in other major countries
- Volumes in Singapore surged in 2026, driven in part by the seeding of Hongkong Land's new core fund

- Retail posted largest gain YTD 2026, with transactions up across most major markets except Japan
- Industrial volumes up 23% vs prior year, with Australia, China, Taiwan and South Korea accounting for 69% of YTD 2026 volume
- Office remains region's most active sector even as volumes lag long-term average; Japan remains top market with 30% of YTD volumes

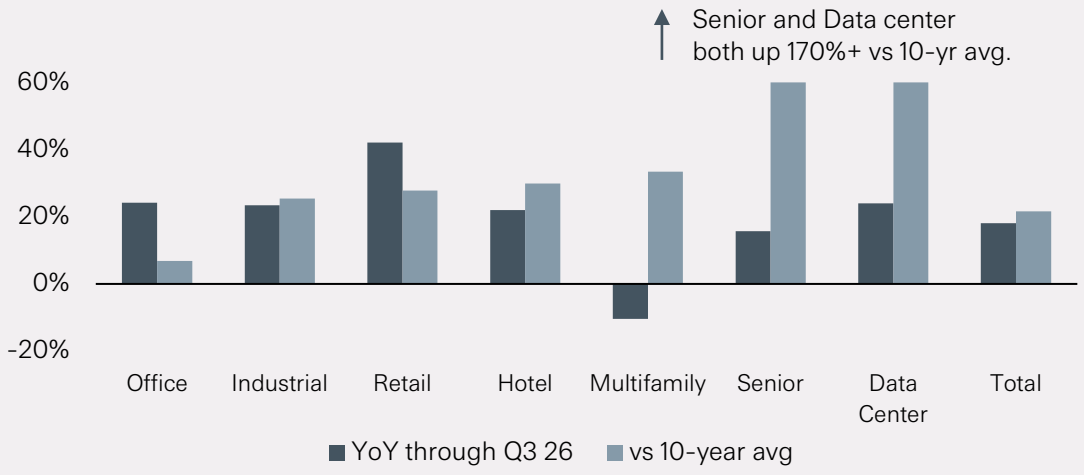
APAC transaction volume by top 5 markets

$ in billions



APAC transaction volume trends through Q3 26

Ranked by % vs. 10-yr avg. (low to high)



Source: MSCI Real Capital Analytics, Q3 26. Excludes development sites and land transactions.

Debt is available but increasingly expensive

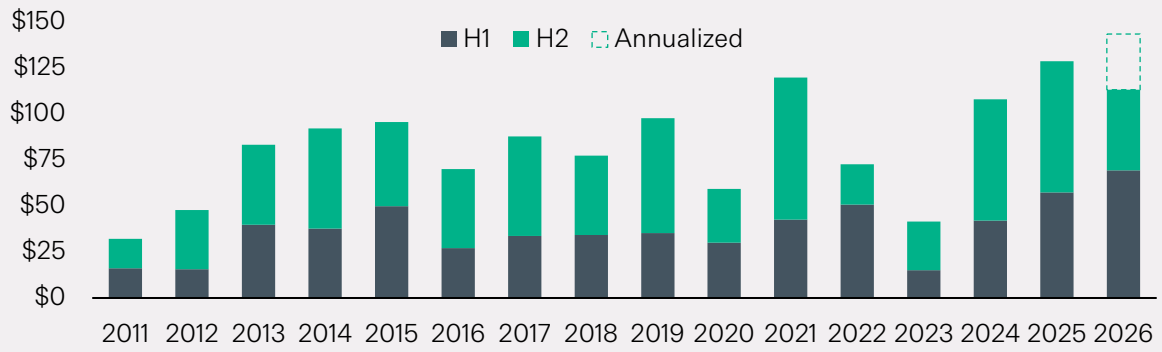
Higher borrowing costs primarily driven by rising base rates

- Debt capital is available. Borrowers are governing volume amid generally higher borrowing cost trends and uncertainty
- Competition among lenders drove spread compression vs. prior year, but that eased in recent months
- Change in bank regulations - eSLR rule in US (effective as of April 1) and Basel III Endgame (revised proposal) - reduces capital requirements, and facilitates more bank lending by institutions who have resolved legacy problem loans
- CMBS issuance remained robust through the third quarter, up 16% YOY, driven by SASB (72% of total) and refis

	US		Continental Europe		UK	
	Q1 26	Q3 26[1]	Q1 26	Q3 26	Q1 26	Q3 26
Spread	1.5%	1.2%	1.7%	1.7%	1.8%	1.8%
Base rate	4.3%	4.8%[1]	2.1%	2.6%	3.7%	3.7%
Total cost	5.8%	6.0%	3.8%	4.3%	5.5%	5.5%
vs Spring 26 HV		↑ 0.2%		↑ 0.5%		-%

US non-agency CMBS annual issuance[2]

$ in billions



Sources: Green Street, PGIM, Chatham, borrowing cost quotes for stabilized multifamily property, October 2026. 1. Borrowers are shifting to 5-year debt and using more floating rates, betting on eventual rate declines; data is for 5-year fixed cost. 2. Data set limited to U.S. distribution region and all non-agency loans. Issuance is as of October 15, 2026.

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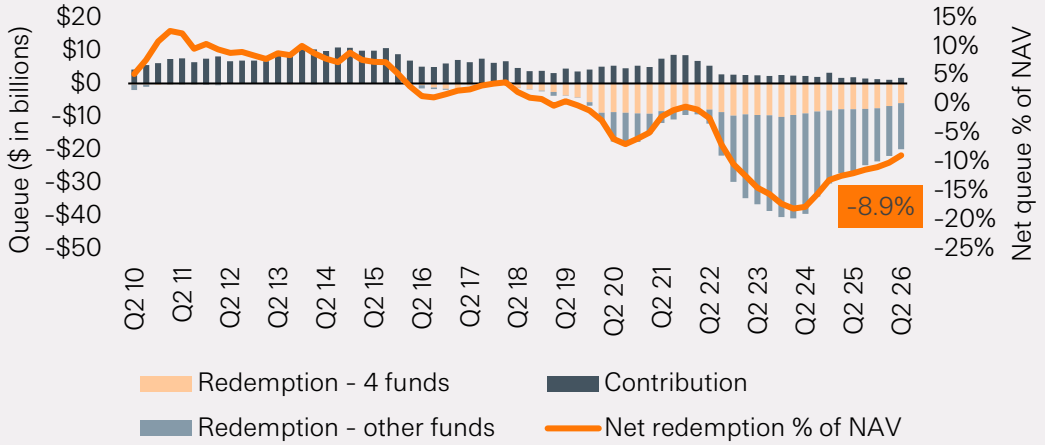
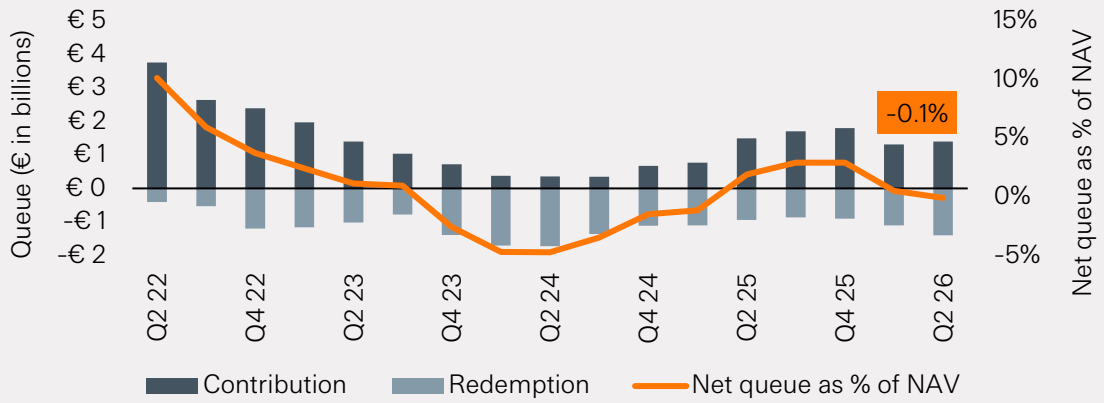
Funds

US OEF exit queues declining but persistent, unlike Europe/UK

US: NCREIF ODCE fund queues, Q2 26



Europe/UK: INREV ODCE fund queue, Q2 26[1]



Net redemption queue as % of NAV	# of Funds		Net redemption % of NAV	
	Long-term queue[2]	Post 22 queue	Long-term queue	Post 22 queue
No net redemption	-	5	-	4%
Under 10%	-	11	-	-6%
10% - 20%	-	1	-	-16%
Over 20%	4	4	-28%	-27%
Total	**4**	**21**	**-28%**	**-7%**

Net redemption queue as % of NAV	# of Funds	Net redemption % of NAV
No net redemption	8	6%
Under 10%	4	-5%
10% - 20%	1	-15%
Over 20%	2	-22%
Total	**15**	**-0.1%**

Source: StepStone Real Estate Manager Surveys data, October 2026. OEF: Open-ended fund.
1. Based on 15 out of 16 INREV ODCE constituent funds. 2. NFI-ODCE funds that have developed redemption queues before 2022 and have not meaningfully worked down their queues since.

US OEF valuations above trading prices, unlike Europe/UK

US, Q3 2026

Sector	ODCE appraisal cap rate[1]	Market cap rate		Borrowing cost	ODCE exposure
Industrial	4.2%	5.4%		6.1%	36%
Multifamily	4.3%	5.6%		6.0%	28%
Office	5.7%	Class A: 6.7%	Class B: 11.0%	6.7%	15%
Retail	5.5%	Retail: ex-Mall 6.6%	Mall (Grade A): 8.3%	6.2%	11%

Europe / UK, Q2 2026

Sector	ODCE appraisal cap rate[2]	Market cap rate – prime[3]	Market cap rate – all[4]	Borrowing cost	ODCE exposure
Industrial	5.1%	4.9%	5.9%	4.8%	33%
Office	4.7%	4.6%	6.8%	5.0%	27%
Residential	3.7%	4.3%	4.4%	4.7%	21%
Retail	5.5%	4.2%	8.5%	5.2%	15%

US fund cap rates low, meaning valuations are high, vs. property trading prices before latest rate rise

- Data does not yet reflect that market cap rates are in early stages of adjusting to higher interest rates
- Borrowers are shifting to 5-year debt and using more floating rate debt, betting on eventual rate declines; data is for 5-year fixed rate borrowing, not the usual 10-year

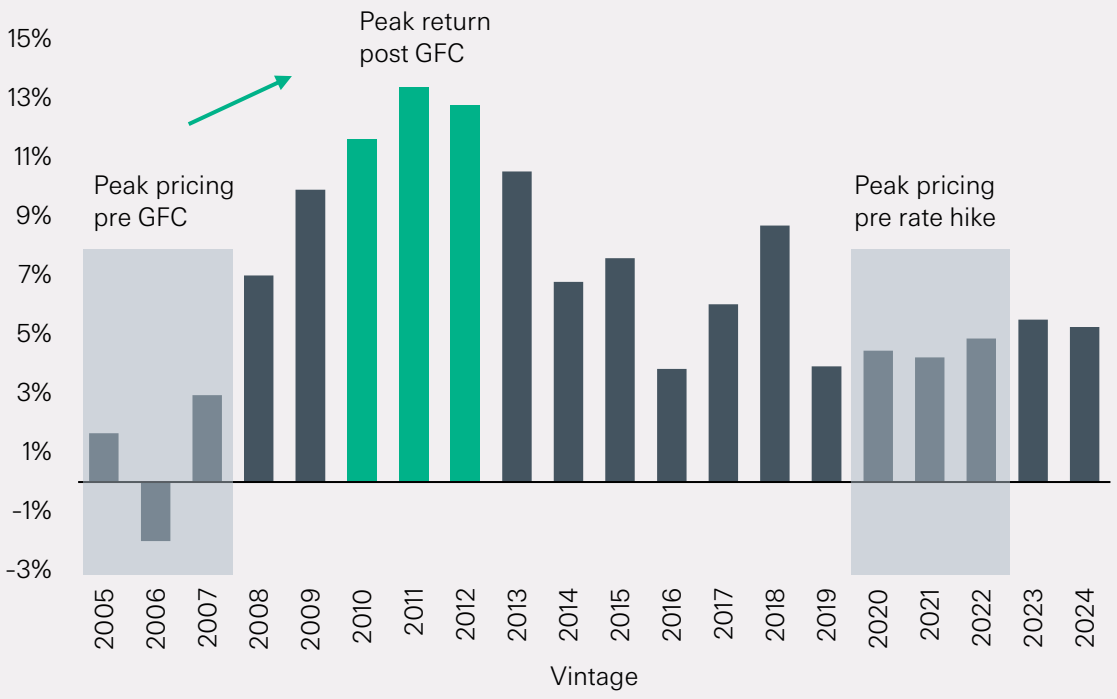
European pricing is aligned at cap rate level, but higher rates likely mean some repricing ahead

Sources: NCREIF, INREV, Green Street, CoStar, CBRE, Cushman & Wakefield, Catella, October 2026. Europe market cap rates weighted by ODCE country and sector mix. 1. Limited to operating assets with 75%+ occupancy. 2. Value-weighted appraisal cap rates reported by 15 of 16 INREV ODCE funds, as of Q2 26. Sample assets narrowed down to operating assets with non-zero reported NIY. 3. Prime cap rates from Cushman & Wakefield as of Q2 26. Residential prime cap rate from Catella Residential Overview as of Q1 26. 4. Net Initial Yield from Green Street, inclusive of purchasing costs as of Q2 26. OEF: open-ended funds.

Real estate is cyclic, time to invest is now

Investors requiring strong trailing results to commit are more likely to get timing wrong

Non-core fund median IRR, vintages 2005-2024



- Similar to today, when commitments were made in 2010-12:
  - Trailing fundamentals disappointing
  - Prices and therefore returns down
  - Higher uncertainty
- When commitments were made at peak pricing, in both 2005-06 and 2019-21:
  - Trailing fundamentals strong (including COVID migration play), with more expected
  - Prices and returns up
  - Unusually high price per SF defended as 'new normal'

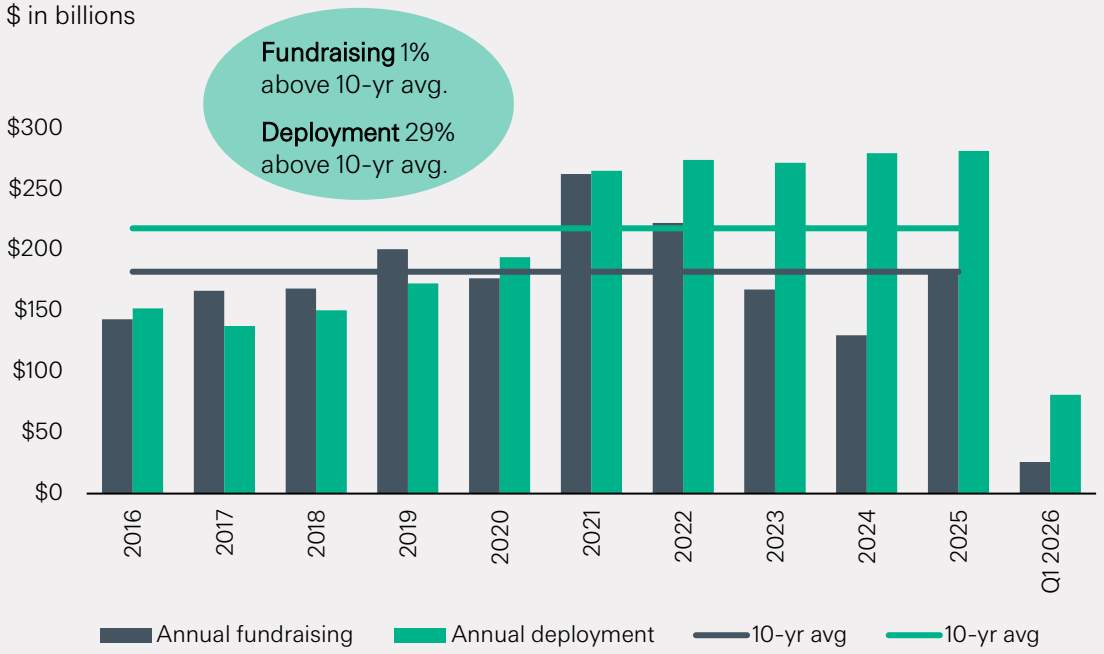
Source: MSCI Burgiss, Real Estate value-add and opportunistic funds, as of Q2 26.

Primary funds actively deploying, dry powder normalizing

- Debt, recap and opportunistic capital is active, with above average deployment pacing
- Past peak on fundraising and dry powder

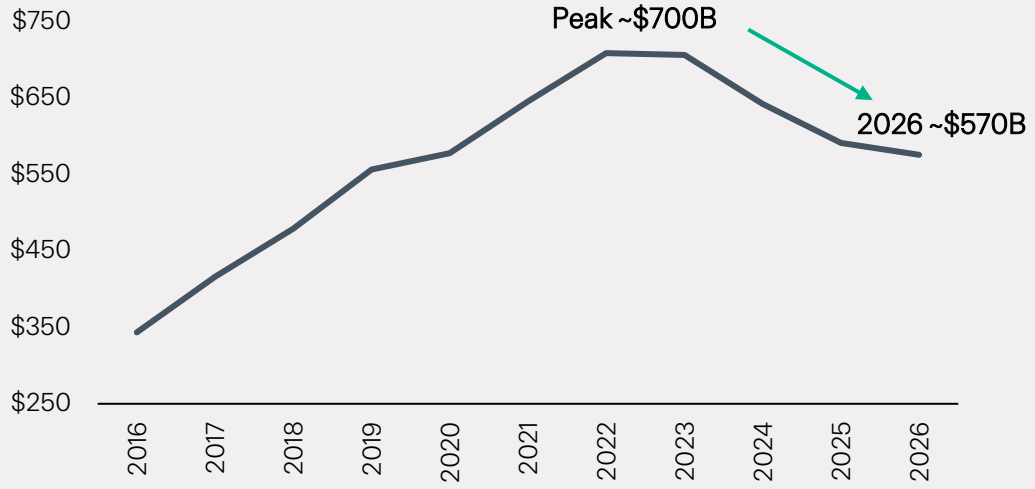
RE primary funds: historical fundraising & capital deployment

$ in billions



RE primary funds: historical dry powder

$ in billions



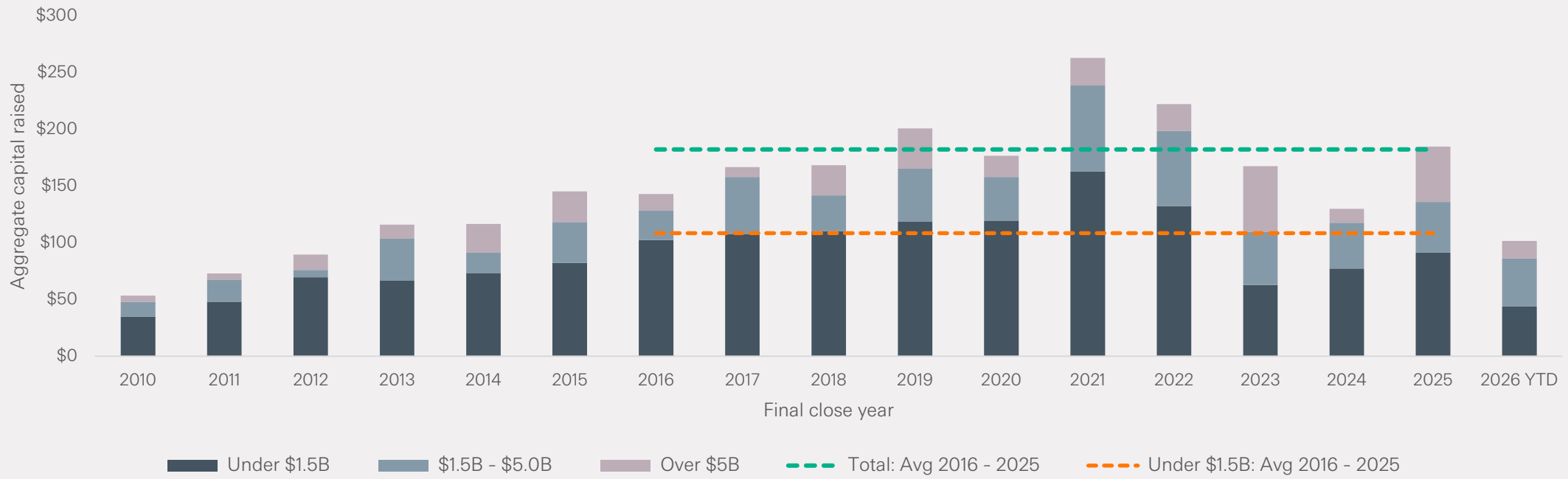
Source: Preqin Pro, Real Estate closed-ended primary funds, October 2026 as of Q1 26.

2026 fundraising trending lower

- Annualizing YTD results implies a 37% funding drop vs 2025
- Smaller <$1.5B funds have struggled to recover post COVID, as share shifts to larger funds

Global private real estate fundraising

$ in billions



Source: Preqin Pro, Real Estate closed-ended primary funds, October 2026 . Mega funds refer to fund size over $5 billion.

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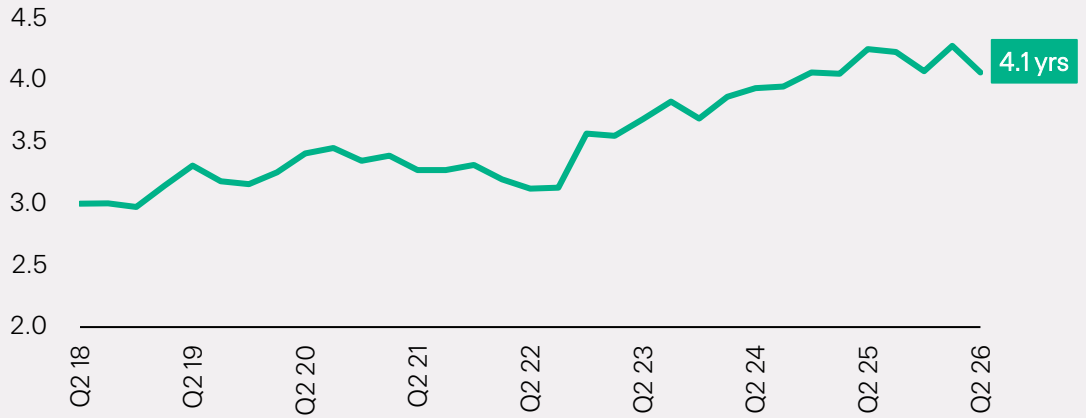
Low non-core distributions likely mask challenges

- Asset sale proceeds by funds fell after 2022, running 60-70% below normal, only partly driven by lower sale prices
- 75% of post-2022 asset sales came from pre-2017 vintages, where funds are largely realized and returns crystalized (1.1x DPI vs. 0.3x DPI for post-2018 vintages[1]), while newer vintages have stronger incentives to defer sales and seek income growth to rebuild values post interest rate rise
- Restoring returns is very difficult in IRR based-funds

Holding periods are longer[2]

Average age of unrealized assets up to 4.1 yrs, above long-term average of 3.8 years

Historically, loss ratios rise much faster after 5-year hold



Realized loss ratio surging since 2023[2]

Likely explains drop in realizations and distributions, also implies carrying values are too high



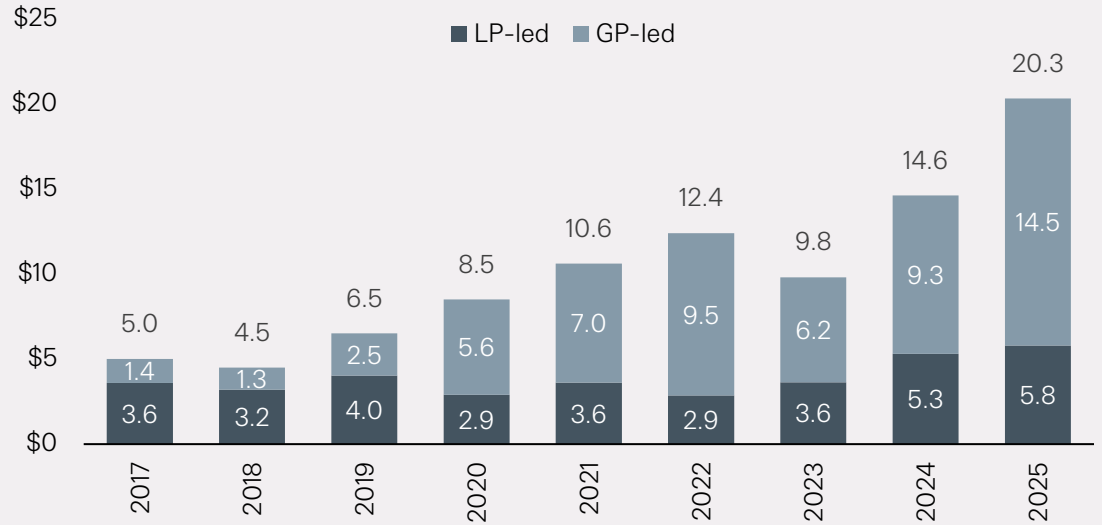
Sources: All data for non-core funds only. 1. MSCI Burgiss, as of Q2 2026. Pre-2017 vintages include vintages from 2003 to 2017; and post-2018 vintages include vintages from 2018 to 2024, consistent with SPI asset-level analysis that follows. 2. SPI Research and Reporting, October 2026.

GP-led secondary sales rising

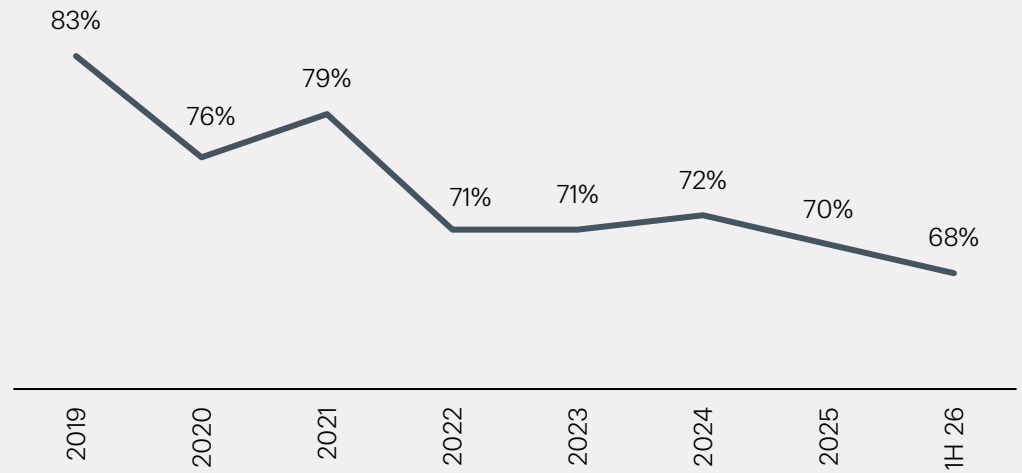
- GP-led secondaries increasingly dominate RE secondaries volume; many are unreported due to lack of broker involvement
- LP secondaries volume and pricing still low, with trades averaging 68% of NAV in H1 2026
    - Inflated carrying values (NAV) mean buyers need higher discounts. The resulting low offer means fewer deals are closing

Global real estate secondaries volume per broker data[1]

$ in billions



LP-led secondaries pricing (% of NAV)



Source: Jefferies LLC, Greenhill, Ares, October 2026. 1. Updated annually.

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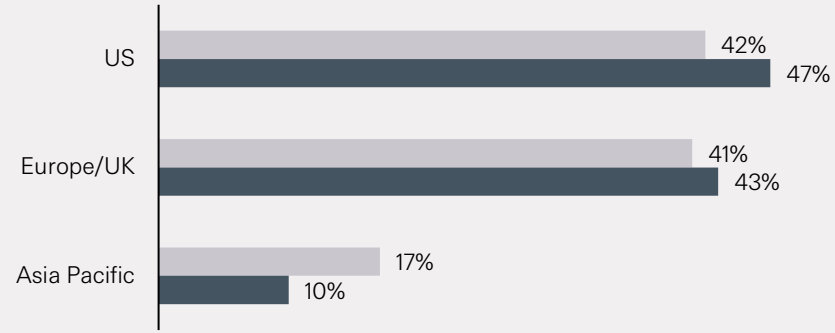
Preferred strategies & portfolio construction

Global real estate portfolio positioning

Considerations

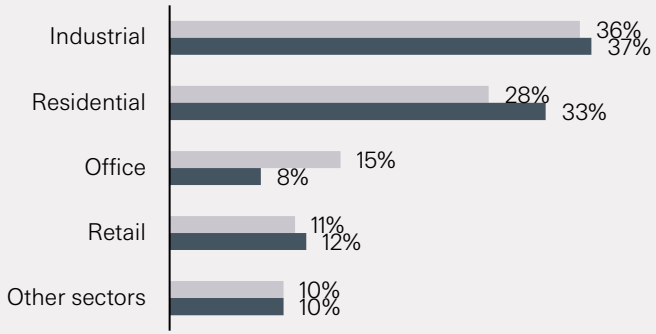
- Recommendations are for mature, core portfolios, change slowly
- Europe recommendation unchanged, supported by deglobalization trends and granular nature of opportunity
- Asia opportunity limited, largely focused on Japan
- Recommended risk exposure tilts, overweight:
  - Core+ and value added for durable income with upside
  - Distress buys, recaps, solutions capital *at lower risk levels*
  - Debt for current income with downside protection

Geographic

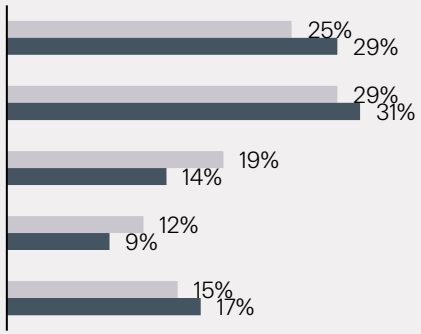




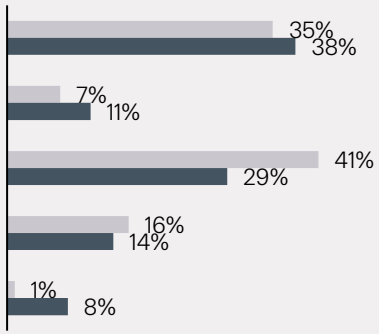
US[1]



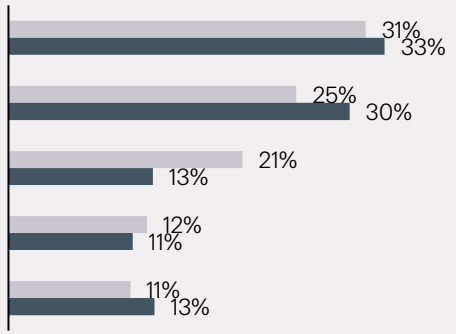
Europe/UK



Asia-Pacific



Global



Sources: StepStone Real Estate calculations, September 2026. Neutral weightings sourced from Global Real Estate Fund Index and StepStone quarterly OEF surveys for global property and geographic allocations and ANREV, INREV, and NCREIF core fund indices as of Q2 26 for property allocations by region. Other property includes data center, hospitality, self-storage, senior housing, parking and land. Recommendations are recast in relation to new neutral weightings. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. 1. US property mix is based on NFI-ODCE index. If accounting for non-ODCE funds tracked by StepStone, the property neutral weights are Industrial 39% / Residential 26% / Office 16% / Retail 9% / Other 10%.

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New deployment targets across the risk spectrum

Property type		Target for 1-2 year deployment
Industrial		15-35%
Residential		20-40%
	- Multifamily	15-30%
	- Single family rental	0-15%
	- Student housing	0-15%
	- Manufactured housing	0-15%
Office		0-15%
	-Trophy	0-10%
	- Life science R&D	0-5%
	- Medical office	5-15%
Retail		5-15%
Other		15-45%
	- Self storage	0-15%
	- Senior housing	5-15%
	- Hospitality	0-10%
	- Data centers	0-15%

- Pricing around cycle bottom, uncertainty, and no clear recovery catalyst – the hardest and best time to commit capital
- At this point in the cycle, the goal is to
  - Seek well priced income for risk mitigation and inflation protection
  - Thoughtfully capitalize on distress in the hands of proven managers
  - Invest through risk-mitigated structures or less leverage, and without dependence on heavy capex, lease-up and rent growth
- It is now less about filling the buckets than finding good, well underwritten deals at attractive entry points
  - Seek pockets of growth
- Exposure targets allow active management while providing risk mitigation amid high levels of change and uncertainty
- The opportunity is global. Distress is interesting in US and Europe/UK, but it's harder to find European funds with strong track records, practically limiting overweight
- As always, tailor to individual investor goals and circumstances. Targets address the total program, not individual funds

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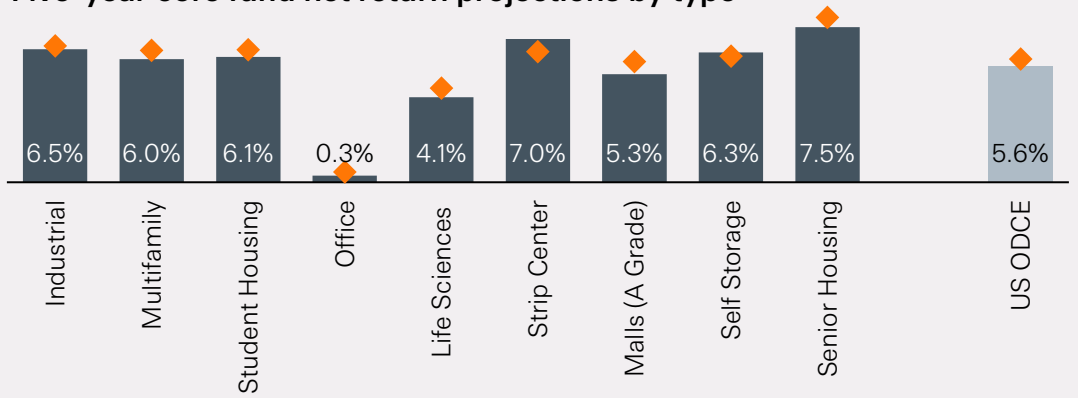
US core/core+ fund portfolio positioning

Considerations

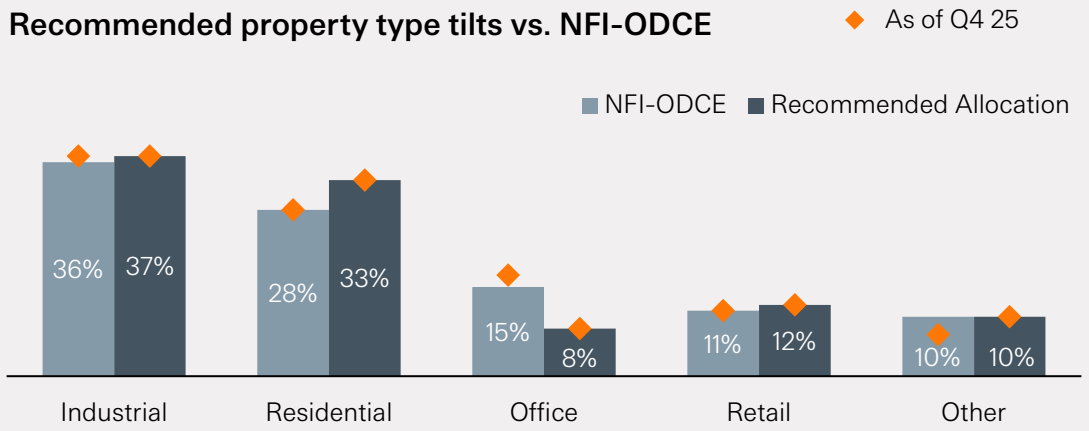
- Funds generally overvalued, NAVs too high to deliver target returns
  - Carefully evaluate NAV if entering, watch for repricing
  - Lean into funds with more dry powder to maximize exposure to current trading prices vs inflated NAVs
  - Non-ODCE funds better priced, more attractive entry basis
- Secondary market NAV discounts offered by sellers are too low. Investors with heavy index orientation and shorter-term performance lens are not incentivized to take a loss on sale even to improve results over time

Returns based on initial investment at NFI-ODCE NAV

Five-year core fund net return projections by type



Recommended property type tilts vs. NFI-ODCE



Source: StepStone Real Estate calculations, NCREIF, October 2026. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the NFI-ODCE at a 27% LTV using StepStone Real Estate estimates for debt finance costs. NCREIF ODCE weightings are the value-weighted share of net real estate assets as of Q2 26. Other property includes self-storage, land, seniors housing, hotel, etc. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target will be achieved, be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target calculations is available upon request.

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Europe/UK core/core+ fund portfolio positioning

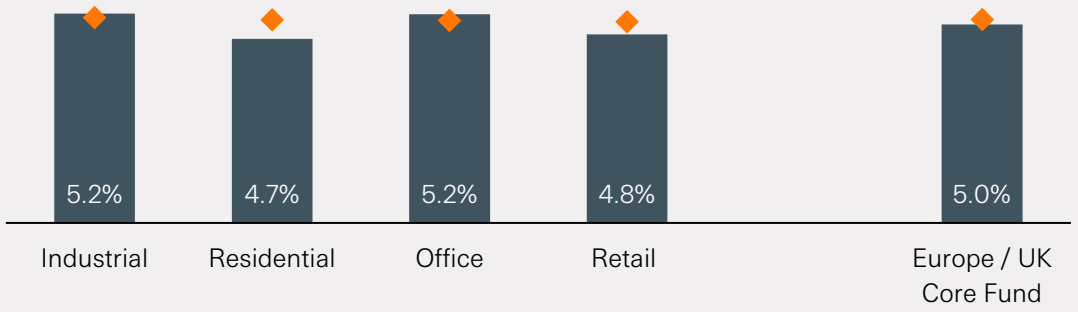
Considerations

- Industrial and residential are appealing. Rental regulations continue to be a risk with political pressure rising, most recently in Germany, France and Spain
- Niche products maturing, increasingly available in core/core+
- Secondary activity focused on gated funds or those with high redemption queues for which recent interest rate hikes reduce expectations of near-term solutions

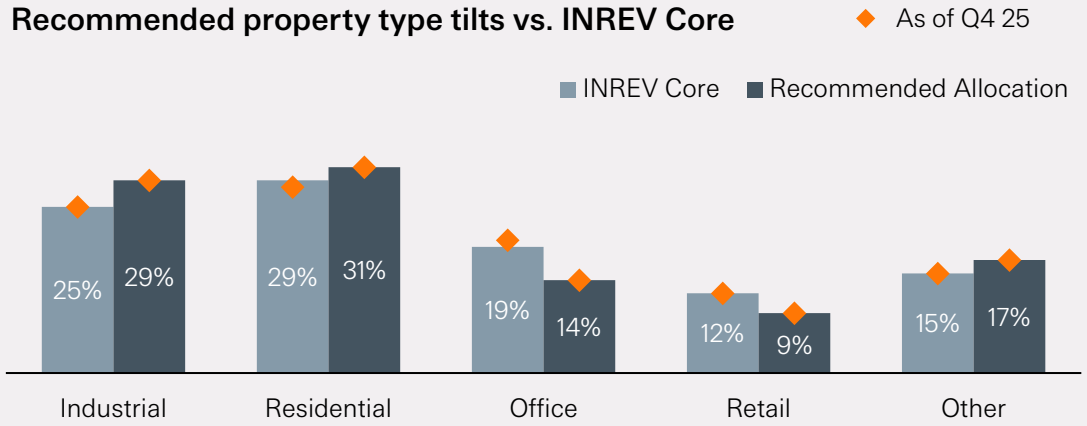
Returns based on initial investment at NAV

SRE focuses on the larger INREV Core, which includes country specific funds; INREV ODCE is only pan-European funds

Five-year core fund net return projections by type



Recommended property type tilts vs. INREV Core



Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Source: StepStone Real Estate calculations, INREV, October 2026. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the INREV-ODCE at a 25% LTV using StepStone Real Estate estimates for debt finance costs. INREV Core weightings are based on INREV Core Index as of Q2 26. Other property includes mixed-use, hotel/leisure, healthcare/seniors housing, agriculture, education, etc. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target will be achieved, be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target calculations is available upon request.

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Preferred themes

	US	Europe/UK	APAC
CORE / CORE+	- **Class A apartments:** Stabilized assets in strong submarkets with overweight towards core coastal markets - **Industrial:** Assets with long WALT to credit tenants, infill locations in growth markets - **Medical office**: Health system anchored, on/adjacent to campus, medium to long WALT - **Retail:** High-quality, well-located strip, open-air and dominant grocery anchored - **Manufactured housing:** High-quality 4 and 5-star communities - **Self storage:** Stabilized assets, high barrier submarkets	- **Senior housing**: Long-term leases to operators - **Student housing**: Continental PBSA in Tier 1 university cities - **Industrial**: Urban logistics in markets with ecommerce upside (Spain) and limited supply (Netherlands) - **Apartments**: Mid-market product with widest demand pool	- **Apartments**: Stabilized assets in Japan - **Student housing**: Prime locations in Sydney, Melbourne, and Brisbane - **Industrial**: Infill assets supporting domestic consumption with long WALT in Japan and Australia - **Office:** Stabilized, trophy office in South Korea, Japan, Singapore, and Australia
NON-CORE	- **Apartments:** Good assets with distressed balance sheets. Opportunistic buys in recovering submarkets - **Data centers:** Low latency, cloud-capable assets in primary markets with a preference for powered shell - **Senior housing:** Wind-ups of legacy vintage funds needing liquidity. Newer assets in steady lease up. Development in high barrier to entry submarkets - **Self Storage:** Lease up assets in high barrier submarkets	- **Apartments**: Brown-to-green strategies in select markets. Developing affordable housing in Spain. Selective privatisation strategies - **Senior housing:** Attractive demographics and aging population in markets with lack of institutional capital - **Self Storage**: Lack of institutionalization provides opportunity across Europe - **Retail:** Mispriced assets in strong locations	- **Apartments:** Well-located, but under-managed, Tokyo multifamily assets - **Data centers**: Pre-leased hyperscale data centers in Australia, Japan, South Korea and Singapore - **Hotels:** Assets with deferred capex in strong tourist locations in Japan, South Korea and Australia - **Office:** Mispriced assets in prime submarkets in Japan and Seoul

CAPITAL STRUCTURE	- Distress oriented structuring with downside protection: recaps, preferred equity, value add or core+ level property risk; involving assets or funds, many of which have end of life challenges - Preferred equity funding of select developments - Debt

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Global: preferred market/property type strategies

● Favorable ● Neutral ● Unfavorable

	Market conditions for fundamentals				Core pricing	Investment appeal		
	Demand			Supply				
Property type	Cyclic	Secular	Policy Risk			US	Europe/UK	APAC
Industrial	●	●	●	●	●	●	●	●
Residential								
- MF - Class A	●	●	●	●	●	●	●	●
- Class B/C	●	●	●	●	●	●	●	●
- Build-to-rent, SFR	●	●	●	●	●	●	●	n/a
- Student housing	●	●	●	●	●	●	●	●
- Manufactured housing	●	●	●	●	●	●	n/a	n/a
Office								
- Trophy	●	●	●	●	●	●	●	●
- Life science R&D	●	●	●	●	●	●	●	●
- Medical office	●	●	●	●	●	●	n/a	n/a
Retail	●	●	●	●	●	●	●	●
Other								
- Self storage	●	●	●	●	●	●	●	●
- Cold storage	●	●	●	●	●	●	●	●
- Senior housing	●	●	●	●	●	●	●	n/a
- Hospitality	●	●	●	●	●	●	●	●
- Data centers	●	●	●	●	●	●	●	●

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Europe/UK: preferred market/property type strategies

● Favorable ● Neutral ● Unfavorable

	Investment appeal						
Property type	Europe/UK	UK	Germany	France	Nordics	Spain	NL
Industrial	●	●	●	●	●	●	●
Residential							
- MF - Class A	●	●	●	●	●	●	●
- Class B/C	●	●	●	●	●	●	●
- Build-to-rent, SFR	●	●	n/a	n/a	●	n/a	n/a
- Student housing	●	●	●	●	●	●	●
Office							
- Trophy	●	●	●	●	●	●	●
- Life science R&D	●	●	●	●	●	●	●
Retail	●	●	●	●	●	●	●
Other							
- Self storage	●	●	●	●	●	●	●
- Cold storage	●	●	●	●	●	●	●
- Senior housing	●	●	●	●	●	●	●
- Hospitality	●	●	●	●	●	●	●
- Data centers	●	●	●	●	●	●	●

The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only.

Asia-Pacific: preferred market/property type strategies

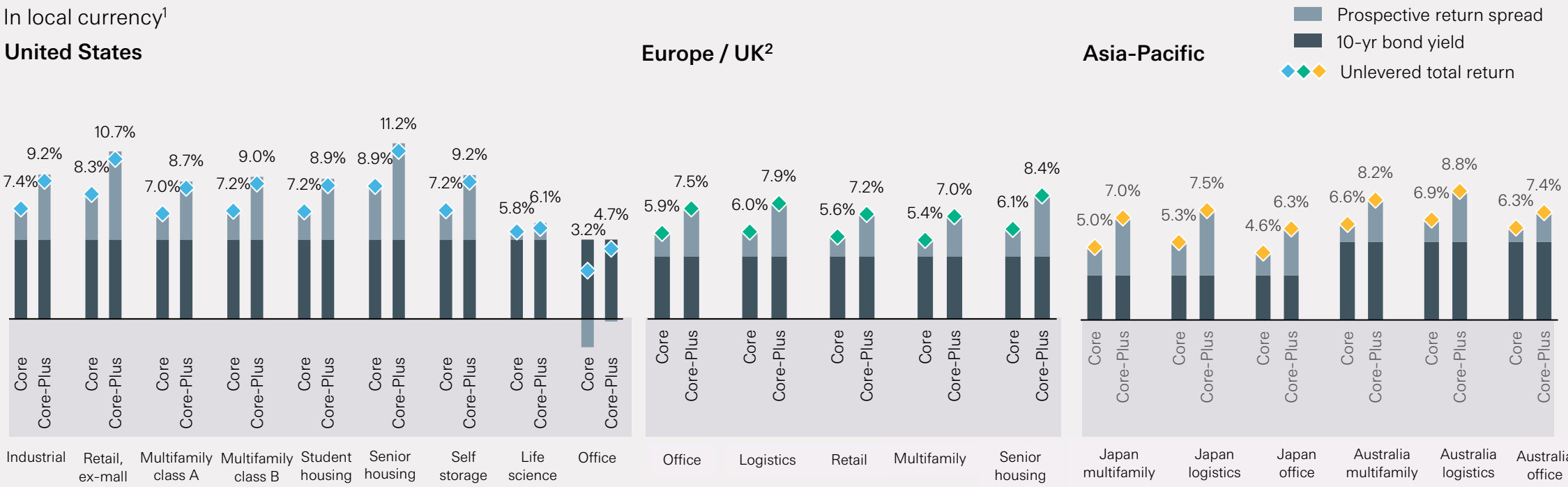
● Favorable ● Neutral ● Unfavorable

Property type	Investment appeal	Capital markets	Fundamentals					
			Japan	Australia	Korea	Singapore	China	Hong Kong
Industrial	●	●	●	●	●	●	●	●
Residential								
- MF - Class A	●	●	●	●	●	●	●	●
- Class B/C	●	●	●	●	●	●	●	●
- Student housing	●	●	●	●	●	●	●	●
Office								
- Trophy	●	●	●	●	●	●	●	●
- Life science R&D	●	●	●	●	●	●	●	●
Retail	●	●	●	●	●	●	●	●
Other								
- Self storage	●	●	●	●	●	●	●	●
- Cold storage	●	●	●	●	●	●	●	●
- Hospitality	●	●	●	●	●	●	●	●
- Data centers	●	●	●	●	●	●	●	●

The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only.

Core/core+ property-level 5-year performance prospects

In local currency[1]



- Returns based on initial investment per trading price data. Open-ended fund commitments made at above market NAVs will yield lower returns
- Fundamentals based on downside scenarios that assume recession and recovery within the 5-year period

Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Sources: StepStone Real Estate calculations, Green Street, MSCI RCA, Cushman & Wakefield, Catella, CBRE, IPF European Consensus, NCREIF, INREV, Oxford Economics, Chatham Financial, Consensus Economics, October 2026. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target IRR calculations is available upon request. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. All return projections are in local currency. 1. Entry prices assume a 5% discount in the U.S. and Europe to account for recent interest rate increases not yet reflected in cap rates. The assumption is applied uniformly across sectors. 2. 10-Yr Bond yield is blended average of 80% Europe and 20% UK.

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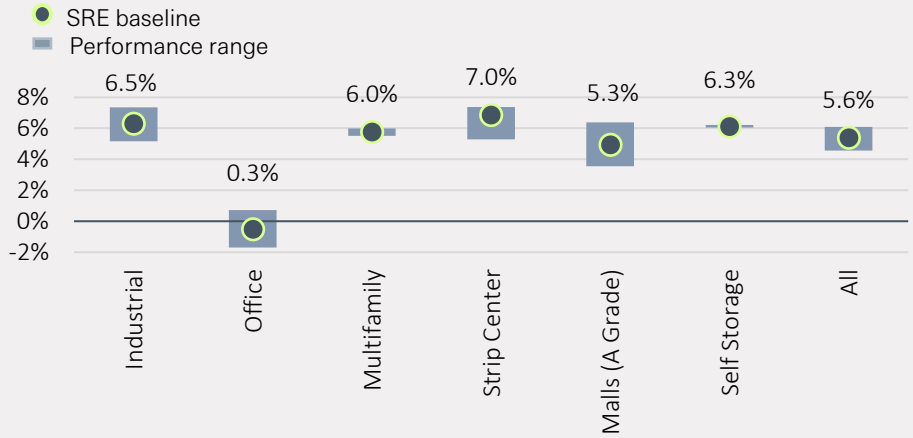
Core/core+ performance scenarios and expected returns

	Third-party baseline	▲ Scenarios ▼	
Growth	- Prolonged Iran war has led to further, modest downward revisions to growth, but AI investment provides a floor - US outperforms even as growth slows - Eurozone growth below other regions - Asia-Pacific above, with slower pace	▲	War ends conclusively, flows through the Strait resume, refining capacity expands. AI investment surprises to upside
		▼	The war lasts longer and expands, with extended period of supply disruption. Concerns over AI drive tech stock selloff
Inflation	- Energy prices drive headline higher near term; pass through to core inflation extends into 2027. AI investment adds upward pressure - Extent varies by country	▲	The Strait re-opens, disruption is limited going forward, refining capacity expands
		▼	The Strait remains closed; energy infrastructure is damaged further
Monetary policy	- Most central banks are expected to continue hiking rates - Government bond yields ease but gradually, remain volatile around high, "normal" levels	▲	Inflation eases more quickly than expected, preventing further tightening
		▼	Inflation proves more persistent, economy shrugs off hikes, tightening continues
Employment	- Job growth limited in slow economy; hiring highly concentrated - Reduced immigration caps labor supply growth and limits rise in unemployment	▲	Businesses dismiss elevated uncertainty, continue to invest and expand
		▼	Layoffs add to labor market pressure, driving unemployment higher
Geopolitical	- A sustained disruption of oil flows is cited as the top concern of businesses as per the Sept 26 OE survey	▲	Conclusive end of Iran war and broader ME hostilities
		▼	Further escalation and/or spread of war

Range of five-year real estate core fund performance expectations[1]

US core fund performance by property type, net of fees



- Industrial faces risk around consumer spending and higher transportation costs, but pullback in new supply supports fundamentals
- Office returns improve as fundamentals stabilize; low due to capex burden
- Multifamily improving as new supply is absorbed; narrow range reflects its defensive nature and higher costs of home ownership
- Retail is more sensitive to macro environment, with lower returns and greater dispersion in more discretionary mall segment

Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Table sources: Oxford Economics, Consensus Economics, StepStone Real Estate analysis, as of October 2026. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the NFI-ODCE at a 27% LTV using StepStone Real Estate estimates for debt finance costs. The NFI-ODCE estimate is calculated using the Q2 26 index weightings. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. 1. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target is available upon request.

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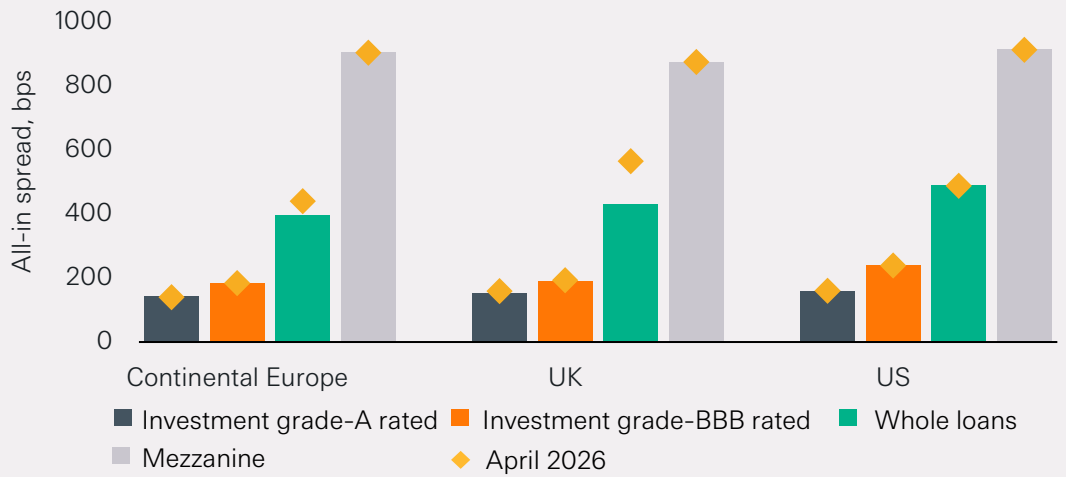
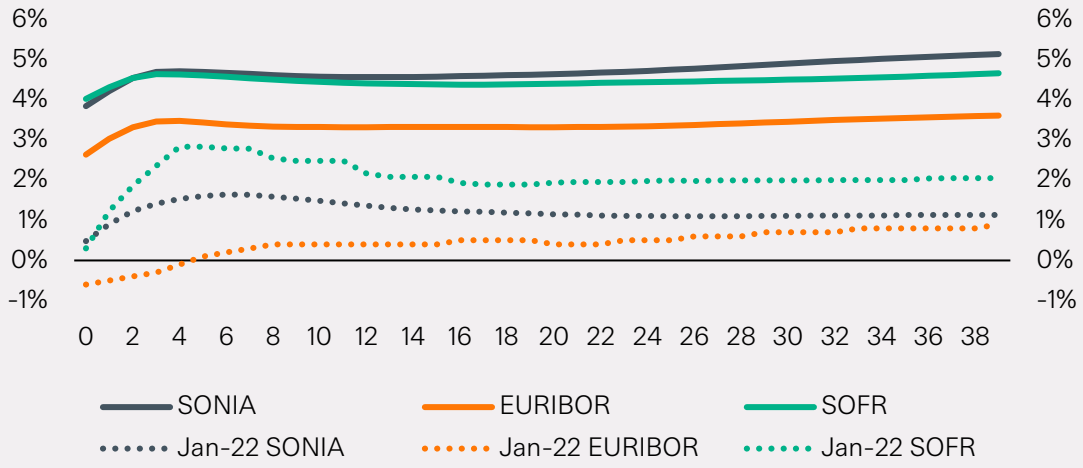
Private debt: competition rising, still appealing

- **Volume has improved across the market in 2026** including among banks, as reflected in the Mortgage Bankers Association 2026 forecasted volume of $806 billion in the US, a 27% lift in loan volume vs. 2025. While increased competition across most segments of the market has pressured spreads over the past 12 months, banks have pulled back recently and spreads have moved out modestly
- **High volatility:** Shifting rates and spreads meaningfully impact volumes, and are affected by overall uncertainty plus unclear interest rate path
- **Better structures, more attractive returns available:** Alternative lenders can originate with better structure and covenants and charge more for complexity and flexibility. While bank volumes are up vs. 2025, they are still down vs. pre-correction (in part due to existing, unresolved loans), so private lenders' share of volume continues to increase, bolstered by abundant capital and accretive back leverage

All-in lending spreads over base rate by loan type
As of September 2026



Three-month forward curves
Sep 26 vs. Jan 22



For illustrative purposes only. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. Sources: PGIM, AIG, Chatham Financial, StepStone Real Estate analysis, September 2026.

Private debt: preferred strategies

Loan type	Features	US	Europe/UK
Senior loans / investment grade	- Senior CRE mortgages on high-quality stabilized properties - Max 60% LTV - European lenders incur low solvency capital charges	- Pricing and terms favor life company and certain unlevered debt fund originators - Banks returning to this segment	- Banks remain active with refinancing driving most transaction volume - Loan-on-loan financing availability also remains robust albeit with greater focus on preferred borrowers and prime assets
Whole loans / stretch senior	- Whole loans on core-plus and light value-add properties - Max 65-70% LTV - US spreads in slightly on multifamily, up slightly on industrial; retail, office and hotel spreads in materially	- Life companies, REITs, and bank activity up over 2025 - Core+ debt funds' office loan problems persist with several winding down, but new offerings can be attractive - 2026 agency purchase quotas of $176B up 21% from 2025, but underwriting tightening and volumes down given specific multifamily supply concerns. 50% of agency purchases must support affordable housing, and the FHFA may increase the quotas and preserve the workforce housing exemption - Ample liquidity remains for stabilized, qualifying multifamily financing	- Market remains a competitive lending landscape across most sectors and geographies - Lenders are also focusing on key borrower relationships and tightening controls; €10-50m mid-market is the most underserved as larger funds move to €100m + tickets - Non-bank share of market has significant room to grow (~$380 billion today vs ~$800 billion capacity if assuming a US-style 35% market share)
Levered whole loan / high yield / mezzanine	- Floating rate whole loans on transitional properties with financial leverage or retention of high yield subordinate/mezzanine positions - Typical whole loan is 65% LTC last dollar, mezzanine 75-80%	- 10-13% debt fund net returns on 2-2.5:1 levered transitional loans and high-quality mezzanine debt at 50%-70% LTC; current cash distributions of 8-10% - Mezzanine spreads ~650 bps on stabilized and ~900+ bps on deeper transitional business plans - Warehouse and repo facilities active and competitive, with new structures filling gap in single A-note and loan-on-loan executions which are down from previous peaks, but picking up - CLO executions robust, favor predictable cash flow so multifamily strong option	- Alternative lenders remain focused on this segment; levered whole loan funds targeting 9-11% net (12-13% gross) at 65% LTV with 8-10% cash distributions; levered all-in spreads of ~320-480bps - Mezzanine spreads ~450-700bps all-in on stabilized/light transitional and ~900-1,000bps on deeper transitional product, but standalone mezzanine supply is thin with junior risk increasingly created through whole loan origination plus back leverage - Back leverage provider pool is slowly widening but many lenders dependent on the same set of banks so established lenders retain the edge as preferred borrowers
Development financing	- Lending to a narrower range of property types focusing on multifamily, other living sectors and industrial where development is justified - Max 80% LTC	- Focus on multifamily, BTR, and last mile/infill industrial; interest in storage, niche sectors, with banks dominating data centers - Certain multifamily sunbelt markets overbuilt, market selection critical - Partial recourse levels from traditional lenders are up, also increasing use of debt fund mezzanine and preferred equity - Regional banks slowly returning	- Reduced lender appetite for development lending as Basel III/IV LTV-based risk weights push banks out - Banks are having difficulty syndicating some of their larger data center development loan exposures; debt fund appetite limited to powered-shell senior or specialist powered-land lenders, with take-out financing the open question
Special situations / opportunistic debt	- Recapitalizations - Discounted Payoffs (DPOs) - Sub-performing Loans (SPLs)	- Opportunities for recaps and high yield executions (i.e. loan/portfolio acquisitions, recap funding /DPOs); strong counterparty relationships benefit - Regulators' bank problems will require a private markets solution. To date, few significant portfolio sales, but single and small portfolio sales are increasing	- Lack of primary market transaction volume continues to drive opportunities to provide liquidity or address funding gaps - Opportunistic structures have also been driven by bid/ask spread on the equity, with structured solution provided as an alternative

Overweight Neutral Underweight

Source: StepStone Analysis, September 2026. The opinions expressed herein reflect the current opinions of StepStone Real Estate as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. No representation or warranty is made as to the returns which may be experienced by investors.

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Macro setting

Global economy resilient amid energy shock

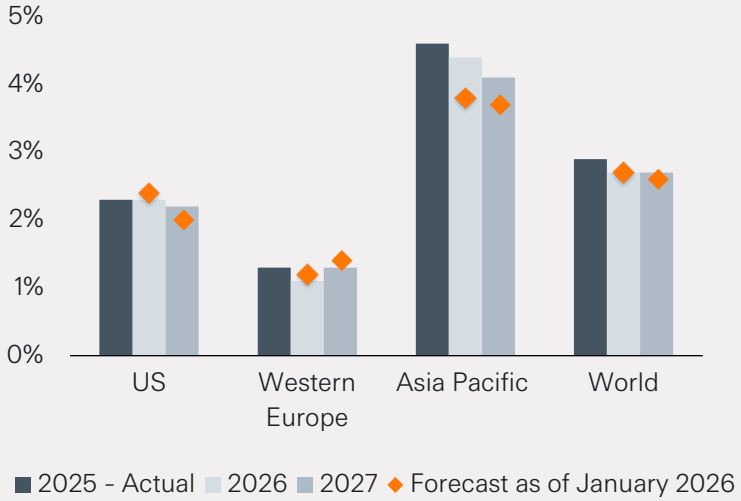
Energy shock is weighing on growth, but inflation is likely the bigger problem

- US expected to outperform most major economies, supported by energy exports and AI investment
- Europe/UK and APAC more vulnerable, varies by country

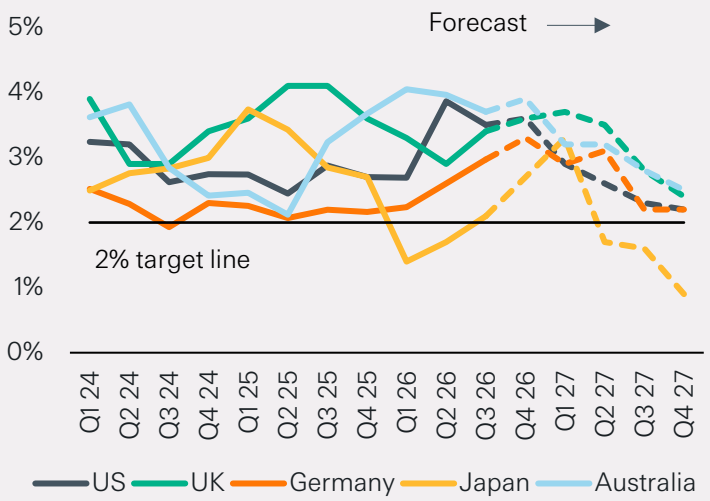
- Headline inflation expected to peak this year, core will lag and could prove stickier
- Energy prices are a key variable, but AI buildout and related shortages are factors as well

- Most central banks have shifted to tightening, with multiple rate hikes in 2026
- The Fed hiked rates by 25 bps in Sept, another hike is expected in December

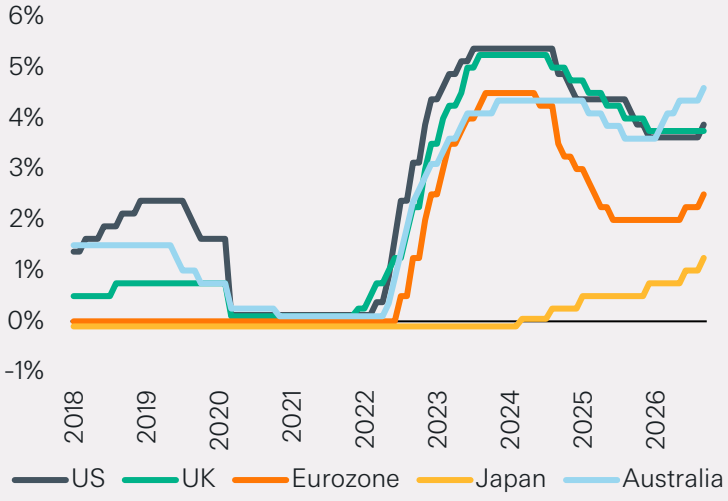
Real GDP annual growth outlook[1]



Annual CPI inflation[2]



Central bank policy rates[3]



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Europe/UK most vulnerable to Iran war, high energy prices

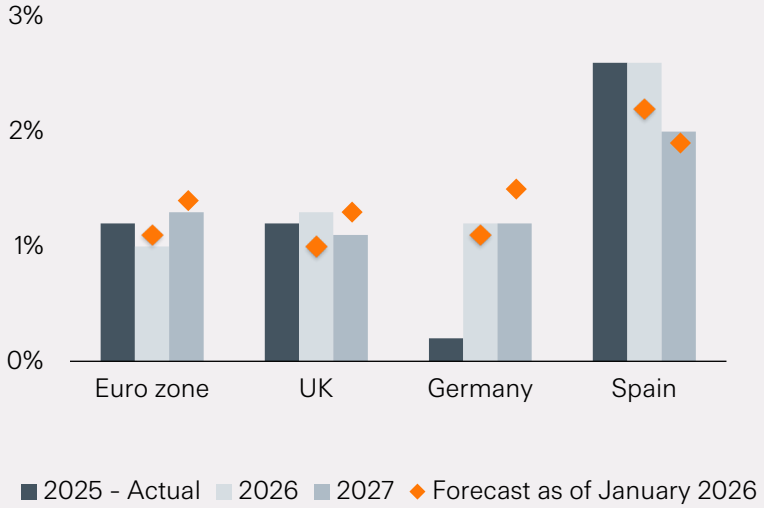
Energy dependence leaves the region highly exposed, with growth already weak

- Impacts vary by country, with southern Europe continuing to outperform
- Fiscal stimulus is driving a brighter outlook in Germany; poor fiscal outlook is weighing on France

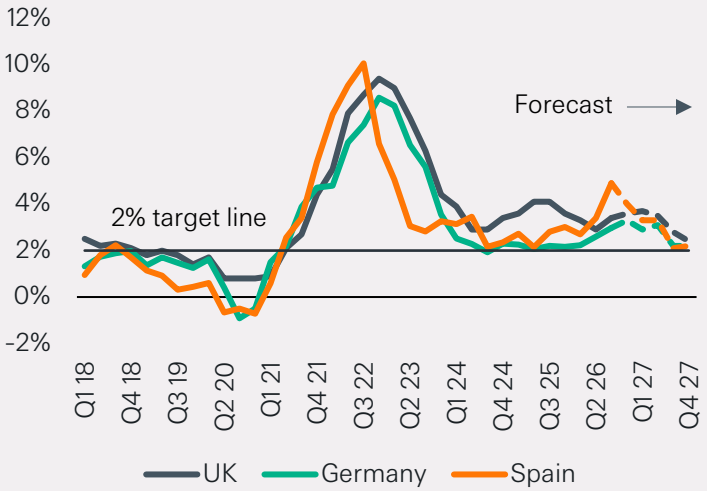
- Eurozone inflation continues to accelerate, hitting a 3-year high in October
- In the UK, high inflation (expected to peak >4% in January) and weak wage growth could drive decline in real household income in 2027

- The ECB hiked its key interest rate in June and September; another hike is expected in December
- The Bank of England hiked rates for the first time this year in November

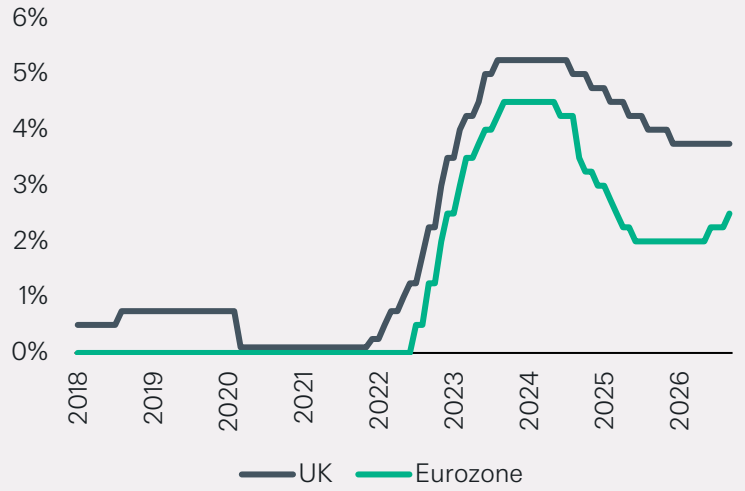
Real GDP annual growth outlook[1]



Annual CPI inflation[2]



Central bank policy rates[3]



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APAC sensitive to energy shock, but supported by tech

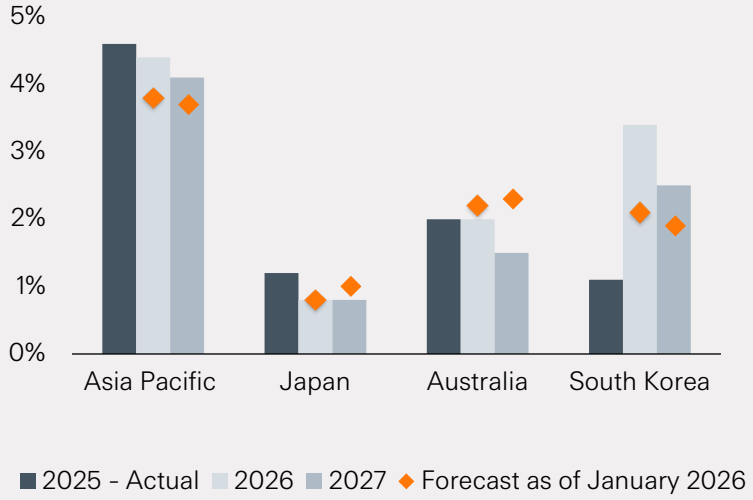
APAC resilient so far, but more notable impacts could be ahead

- Impacts vary by country, related to energy dependence and export offsets
- Technology exports and investment are supporting growth, but sustained recovery at risk due to Iran war and higher energy prices

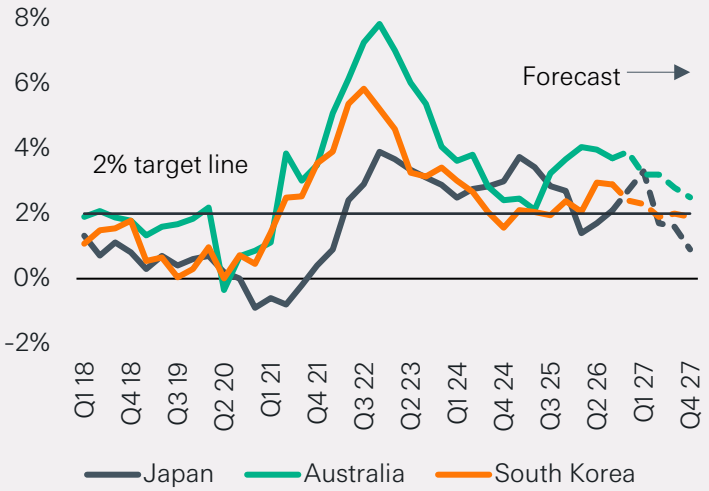
- Inflation continues to accelerate in APAC, primarily due to the energy shock
- Other factors are at work as well, including extreme weather and currency depreciation

- Many central banks have hiked rates in 2026, including Japan, Australia, South Korea, and India
- While down from early October peaks, bond yields are also up sharply vs. prior-year levels

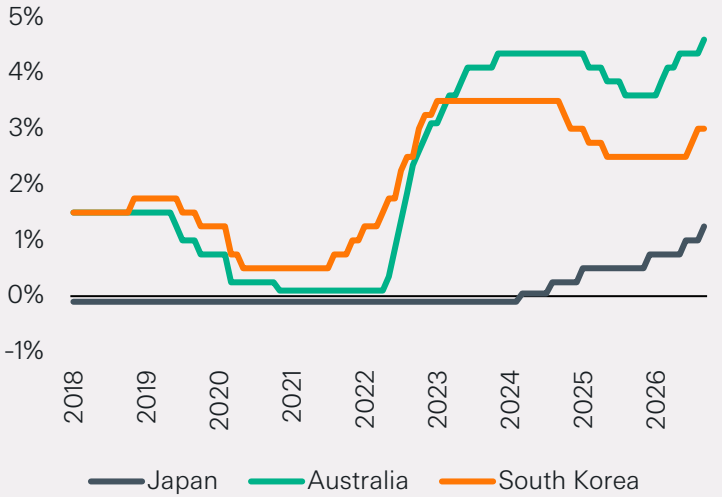
Real GDP annual growth outlook[1]



Annual CPI inflation[2]



Central bank policy rates[3]



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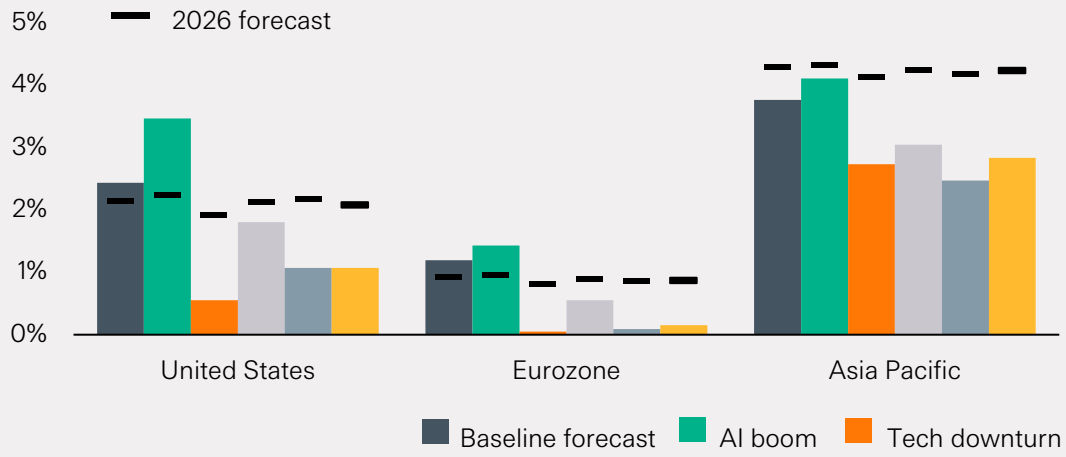
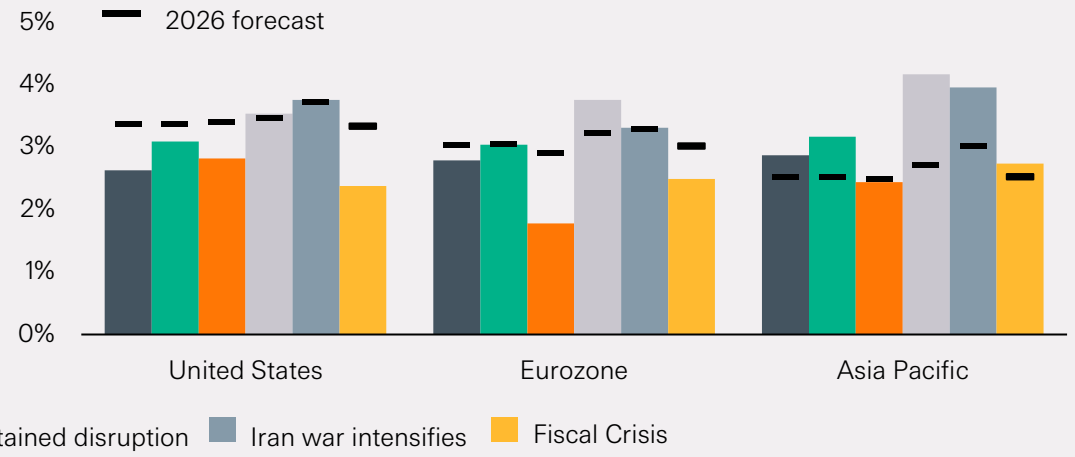
Macro scenario analysis for GDP growth, inflation

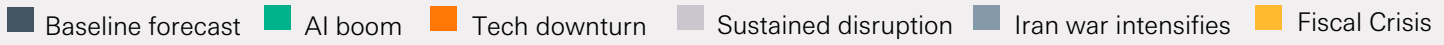
- Iran war and related energy shock are stagflationary
  - Despite a higher baseline, most other scenarios have growth slowing globally in 2027
  - Europe has weakest growth outlook and greatest risk of actual stagflation
  - Inflationary shocks are anticipated to resolve in 2027, presuming the war ends. They persist only in the sustained disruption scenario
- The biggest threat to US growth is a tech downturn, and the US gains the most from an AI boom

2027 GDP growth forecast



2027 inflation growth forecast





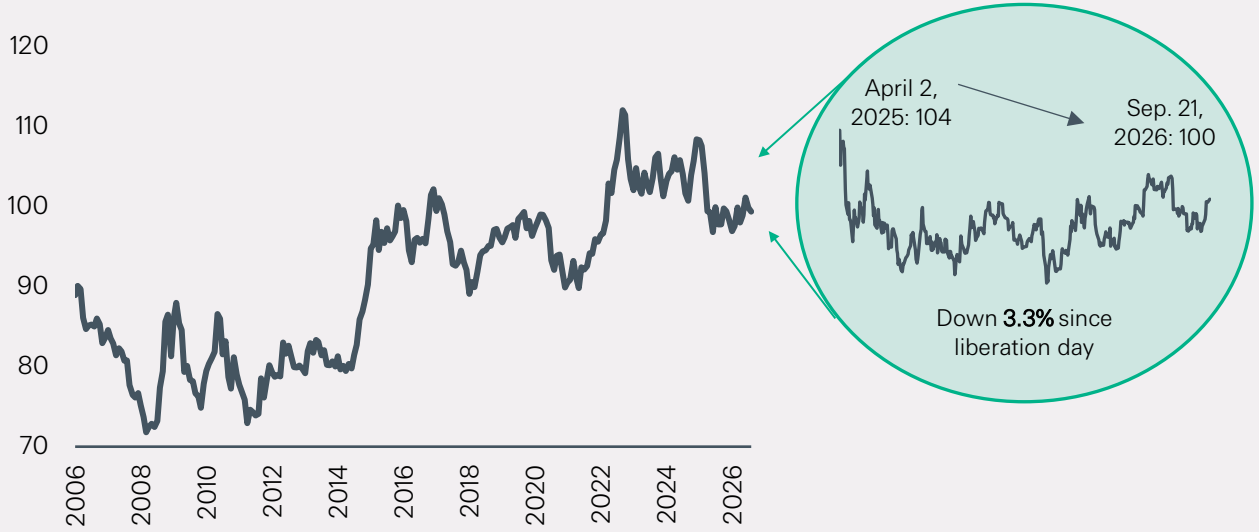
Source: Oxford Economics, Haver Analytics, September 2026. Baseline (GSS weight 40%): The global economy rebounds in the second half of 2026, with a major downturn avoided. AI boom (GSS weight 15%): The global economy is bolstered by buoyant US tech investment and stock prices, at the same time as rapid AI adoption fuels gains in productivity. Tech downturn (GSS weight 15%): AI boom turns to bust, with global growth slowing sharply under the weight of falls in stock prices and investment. Sustained disruption (GSS weight 15%): The Strait of Hormuz remains effectively closed until 2028, resulting in persistent supply-chain disruption. Iran war intensifies (GSS weight 5%): Severe energy market disruption in H2 2026 leads to a contraction in global activity and rising fiscal pressures. *(Formerly "Prolonged Iran war."). Fiscal Crisis (GSS weight 10%):* In this scenario, Japanese government bond yields spike to more than 100bps above the baseline. As market concerns spread, US Treasury yields rise as much as 80bps. Equity markets falter, with stocks globally 15% below the baseline. Governments react with fiscal tightening.

Some US dollar recovery amid FX volatility

- FX rates are notoriously hard to predict, particularly in a way that is useful for long-term investments, because they are a function of government and central bank behavior
- Hedging major currencies is generally cost effective, and events have not materially changed the cost

- The dollar's unique list of advantages supports its ongoing role as the world's reserve currency
  - Deep and liquid government debt markets
  - No capital controls
  - Not heavily managed by the central bank

US dollar vs. other currencies: DXY index[1]



FX volatility: DXY, 30-day rolling volatility (%)



Sources: Bloomberg, Chatham, September 2026. 1. DXY index weighted as follows. EUR: 57.6%, JPY: 13.6%, GBP: 11.9%, CAD: 9.1%, SEK: 4.2%, CHF: 3.6%.

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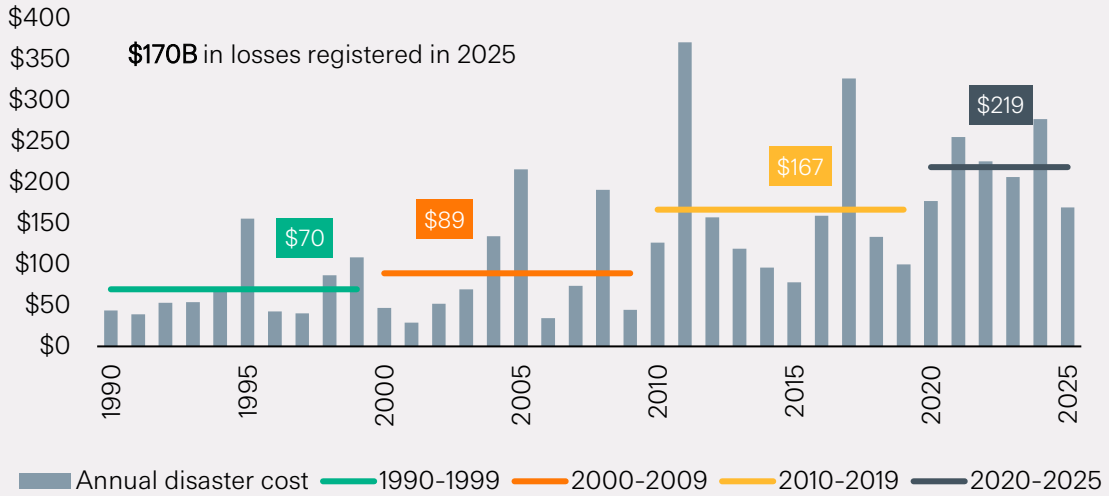
Global climate events are increasingly expensive

Insurance and recovery trending up, with some insurers exiting high risk markets

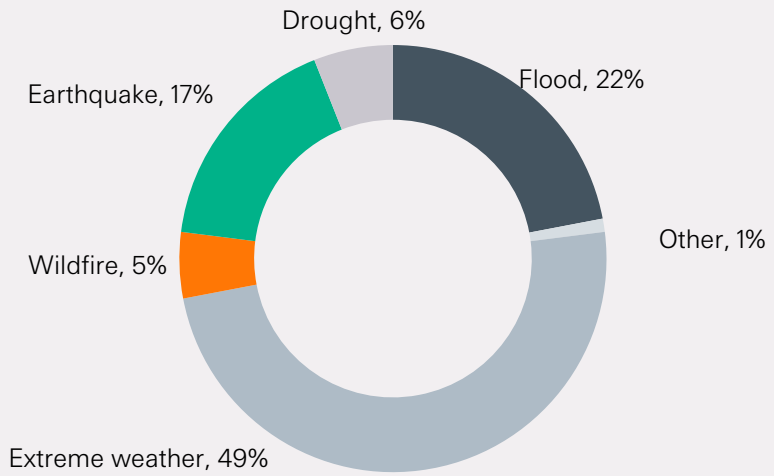
- Average annual losses in the 2020's are 3x what they were in the 1990's
- In 2025, damages totaled $170 billion, with extreme weather and flood accounting for over 70%
- Extreme weather is driving insurance costs for commercial real estate higher, doubling over the past decade in the US
- US population growth and considerable real estate investment is focused on metros with highest risk of natural disasters (TX, FL)

Global annual disaster costs 1990-2025

$ in billions



Total loss incurred by peril, 2010-2025[1]



Source: EM-DAT, CRED / UCLouvain (2026) – with major processing by Our World in Data, April 2026. 1. Other: extreme temperature, landslide, and volcanic activity.

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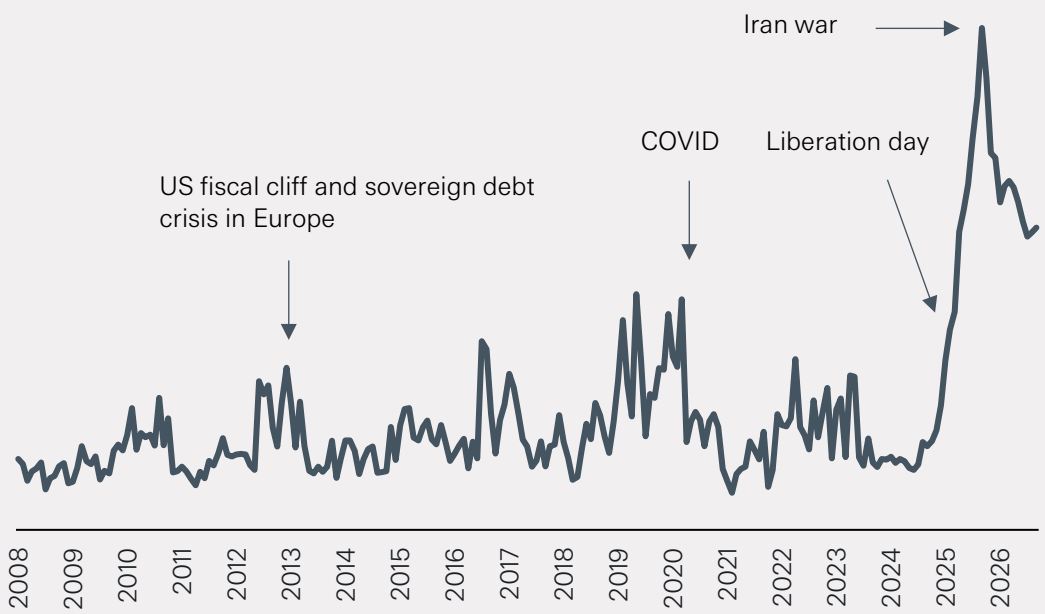
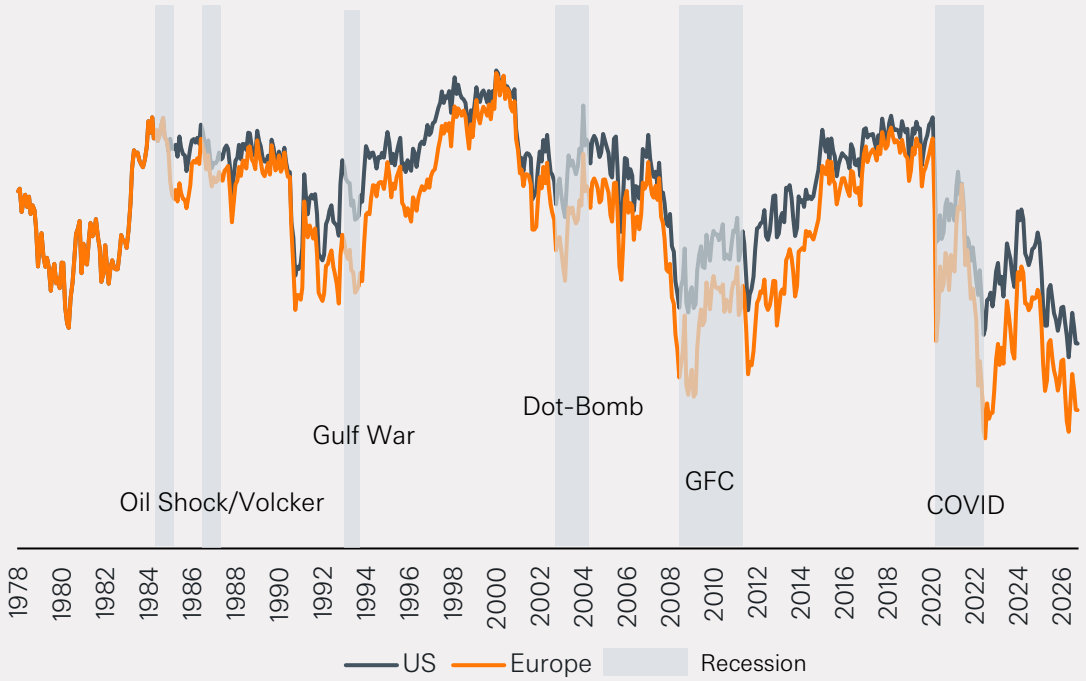
High macro stress

Disruption from Iran war, AI, and deglobalization leave consumer sentiment weak and falling

World uncertainty index, GDP weighted average[1]



Consumer sentiment index[2]



1. Ahir, H, N Bloom, and D Furceri (2022), "World Uncertainty Index", NBER Working Paper, September 2026.
2. University of Michigan: Consumer Sentiment, Index 1966:Q1=100, Monthly, Not Seasonally Adjusted, October 2026. European Commission: European Union consumer confidence indicator, Monthly, Not Seasonally Adjusted, September 2026. UK excluded from data series starting January 2021.

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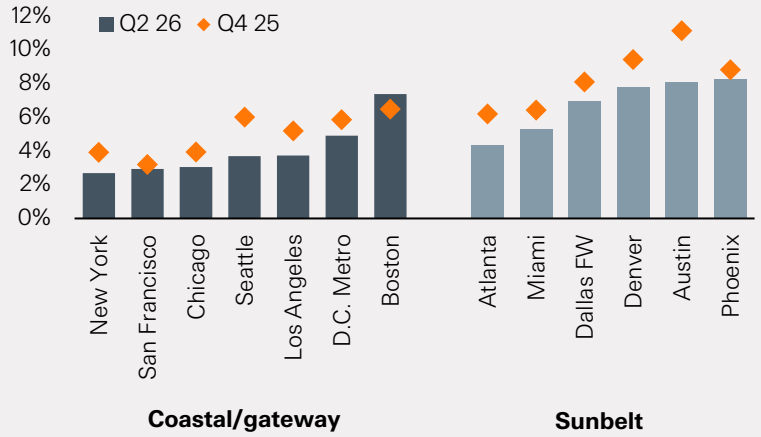
Property type outlooks

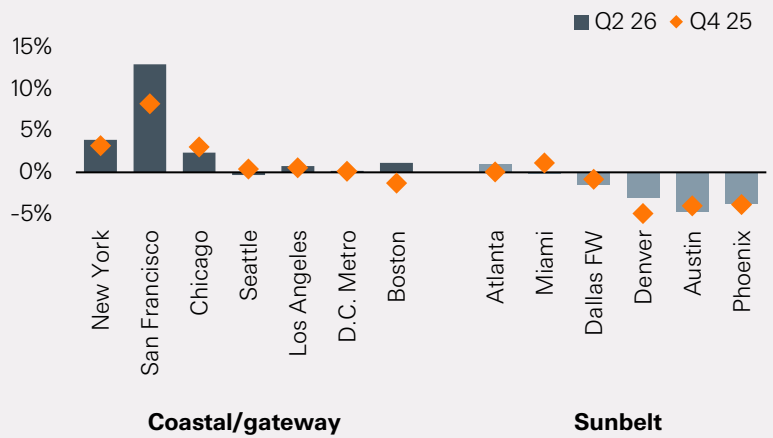
US outlook

Multifamily - US

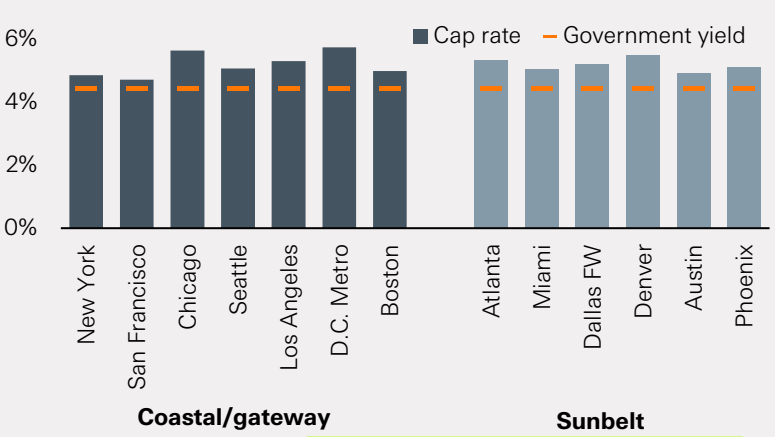
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: high

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Lower immigration and subdued job growth weigh on demand, but structural undersupply and high homeownership costs support medium term outlook. Supply is past peak in most markets with starts staying somewhat lower. Rents are showing signs of solidifying, with modest growth expected in 2027. OpEx inflation still pressures margins **Capital markets:** Transaction activity is generally stable; rising rates are driving wide bid-ask spreads and lower prices. Conditions intensify distress and are expected to lead to more capitulation. Debt remains available with competitive spreads	- Supply-constrained core coastal markets (e.g. San Francisco) - Opportunistic acquisitions at reset bases in strong longer-term growth markets - Assets with strong rent-to-income affordability ratios - Stabilized/near-stabilized properties - Lower leverage capital structures - Structured capital investments filling refinancing gaps	- Assets in lease-up in supply-pressured markets - Assets sensitive to policy-driven demand shifts (e.g. immigration, subsidies) - Highly-levered, fully-priced transitional business plans - Older vintage assets in need of remedial or maintenance capex - Markets lacking today's economic drivers - Material regulatory risk not fully reflected in pricing
Downside scenario	**Operating fundamentals**: Low job growth and household formation plus out-migration weigh on demand and rent growth. Pullback in new supply and high homeownership costs could prevent declines seen in prior recessions **Capital markets:** Depends on severity of downturn. Impacts could rival prior recessions but relatively high current cap rates and lack of investment appetite across other sectors may provide support	- Experienced sponsors - High-quality/newer assets in primary markets (3 to 5-year hold) - Core business plans - Geographic diversification - Flight to quality/affordable submarkets - Markets with diversified employment drivers - Stable regulatory/landlord-friendly markets	- Intensive value-add business plans - Development business plans with aggressive underwriting - Higher leverage capital structures or loans with bridge to profitability business plans

The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. 1. Sources: Green Street, Q2 26. 2. Sources: Green Street, CapIQ, Q2 26.

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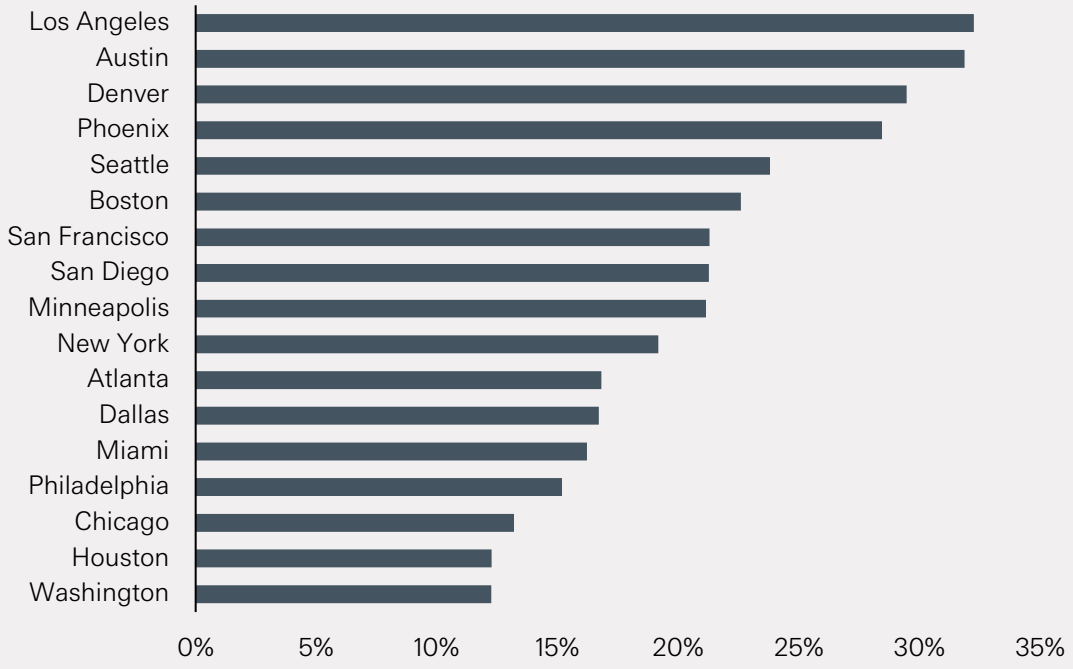
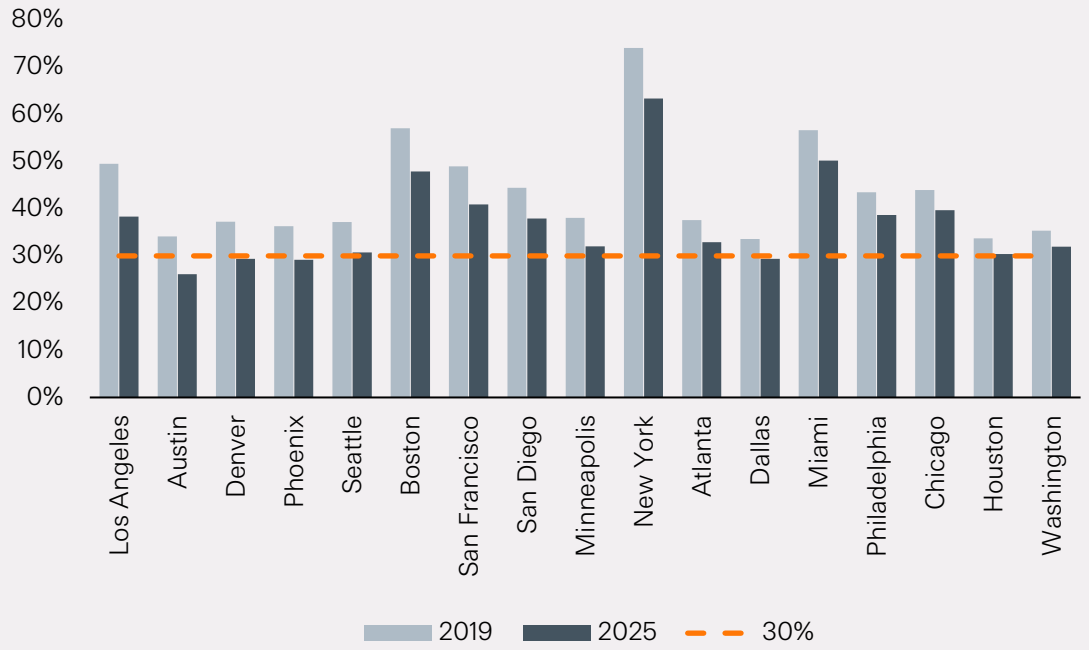
Income growth is boosting affordability, but not enough

Income growth has outpaced rent growth since 2019, but the rent-to-income ratio for renter households remains high

2019 – 2025 cumulative income growth less rent growth



Renter household rent-to-income ratio, 2019 vs 2025[1]

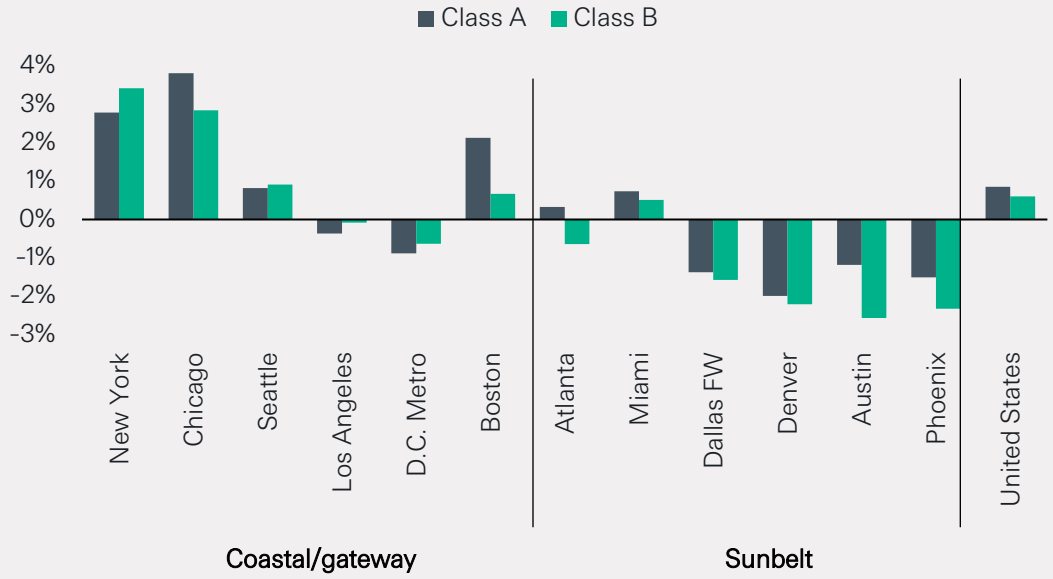


Sources: CoStar, Moody's, Oct 2026. Median renter income is sourced from Moody's through 2024; 2025 is estimated using median household income growth from CoStar.

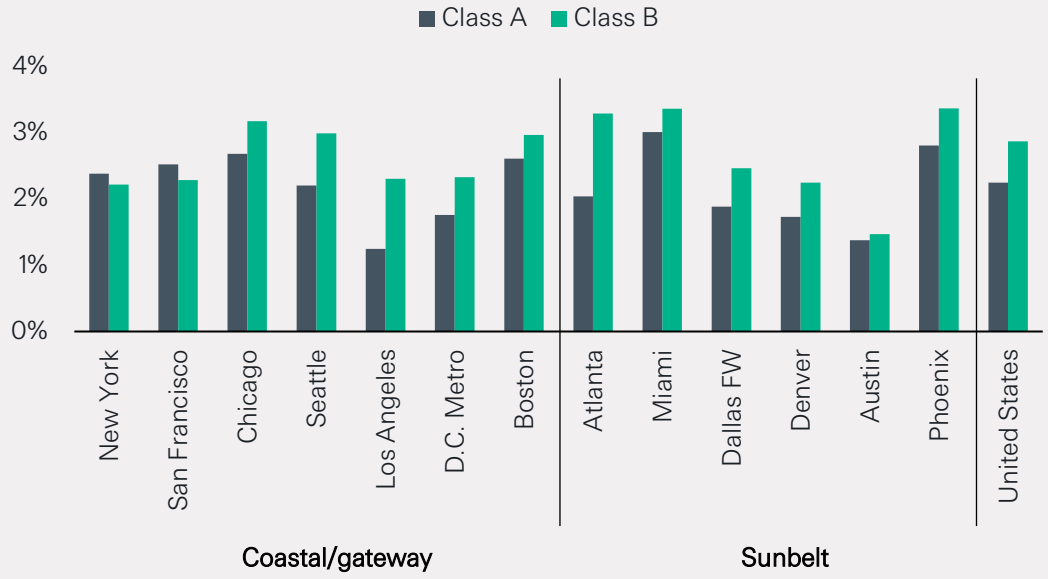
Recent trends favor class A; long term favors B

- The K-shaped economy and trading up are supporting class A while weighing on demand for class B
- Development activity differentiates longer-term performance, with high levels of new supply in the class A segment limiting rent growth

12-month rent growth, Q2 26[1]



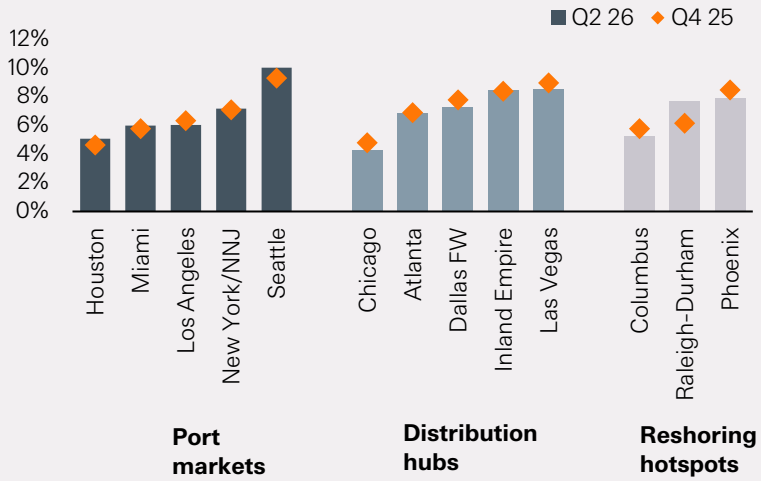
10-year history of rent growth, Q2 26



Source: CoStar, Q2 26. 1. San Francisco left off chart due to extreme outperformance. San Francisco 12-month rent growth - Class A: 15.7% ; Class B: 12.3%.

Industrial - US

Vacancy rates[1]



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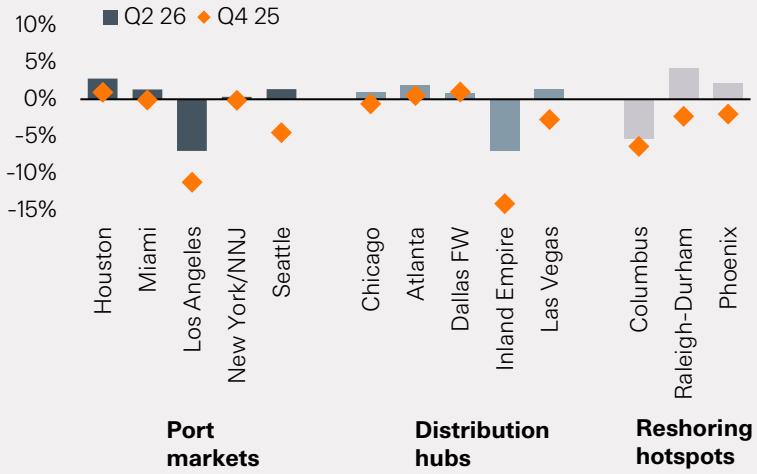
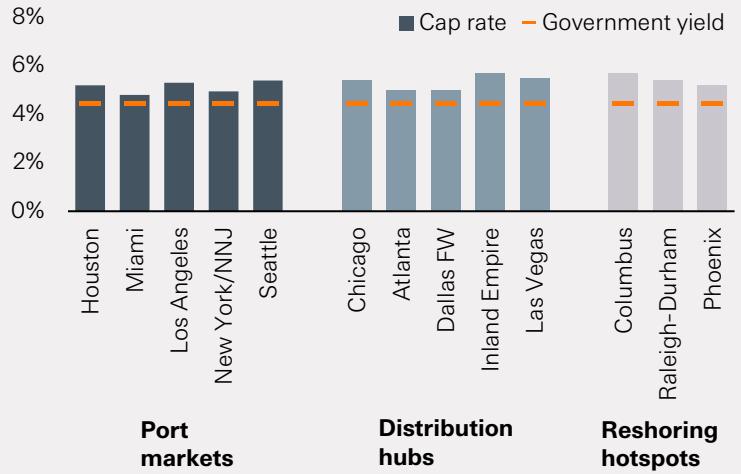


Grade-A cap rates & 10yr govt yields[2]



Distress potential: low

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Tenants continue to navigate tariff impacts and macro uncertainty. Leasing has shown clear signs of recovery, driven in large part by big-box occupiers in H1 26. Low construction starts allowing occupancy to stabilize. Rent growth expected to normalize over mid term. Long-term on- and near-shoring trends persist **Capital markets**: Broadly stable, with transaction activity improving and large transactions supported by financing availability. Elevated interest rates and uncertain outlook limit cap rate compression potential so returns reliant on top-line growth	- Big-box properties as large occupiers return and barriers to new supply grow - Manufacturing and adjacent assets with power capacity - Infill locations in growth markets	- Mid-bay assets with persistent vacancies - Coastal markets reliant on import volume to secondary ports - Class B/C warehouses in non-infill locations
Downside scenario	**Operating fundamentals**: Market remains bifurcated across size segments with supply overhang persistent in mid-bay 300k-600k SF. Macroeconomic volatility slows improvement in leasing fundamentals, operational recovery is prolonged **Capital markets**: Severity of downturn determines extent of weakening, but current high cap rates and relatively resilient buyer pool help to limit declines in prices and volumes	- Longer WALT properties - Manufacturing tenants with heavy investment in space - Newer vintage, infill assets - Markets/submarkets with today's employment drivers	- Import/trade reliant markets - Upcoming vacancy competing with supply overhang - Older, large format assets

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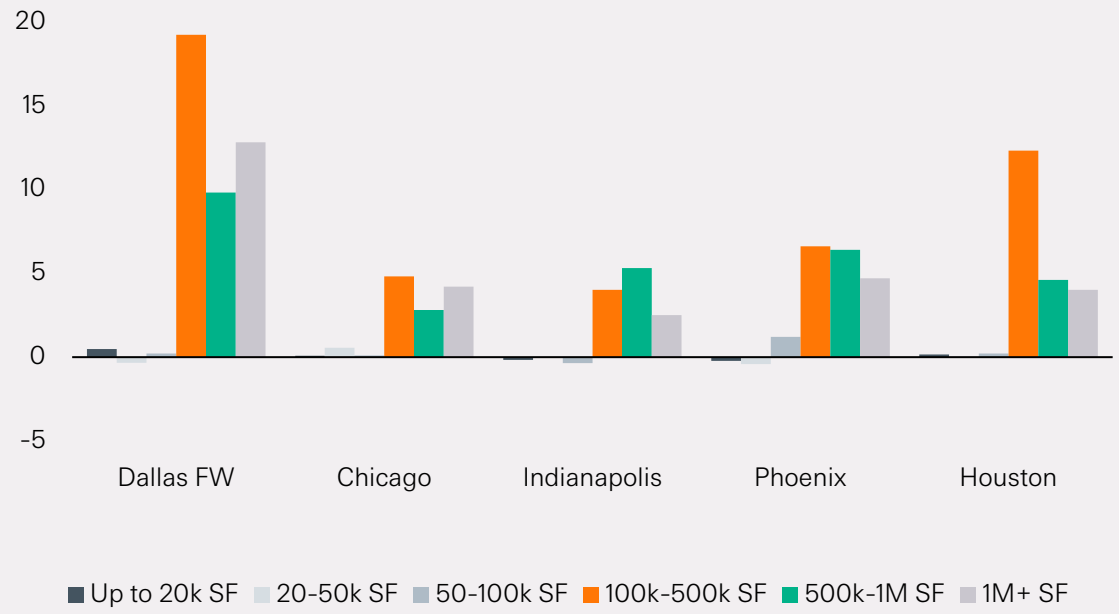
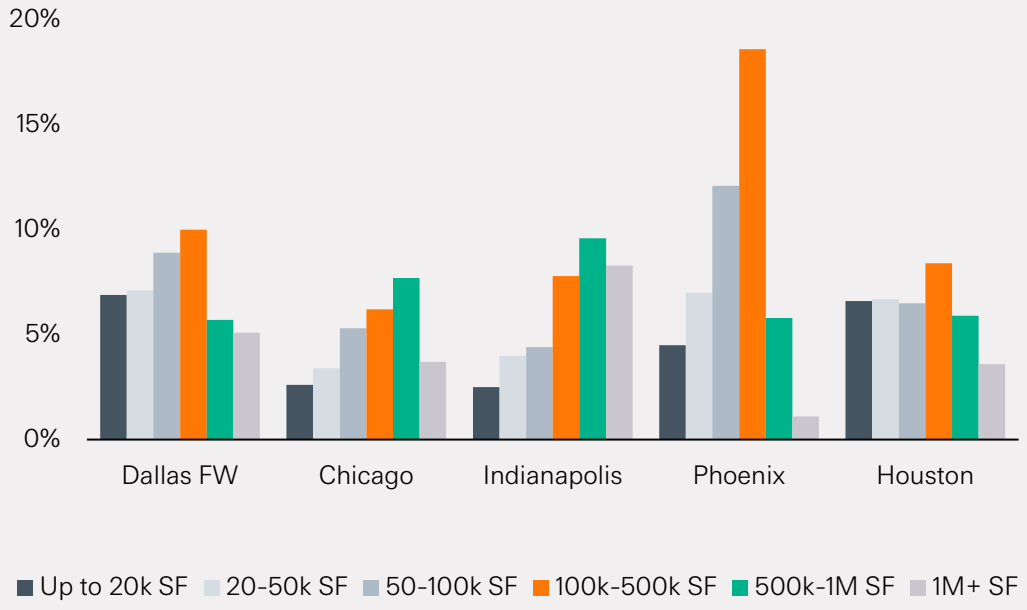
Big box demand surge; small bay resilience

Deferred demand is finally translating to leasing activity and driving absorption in the big box segment, while a lack of new supply helps to keep small bay vacancy low

12-month net absorption SF
In millions



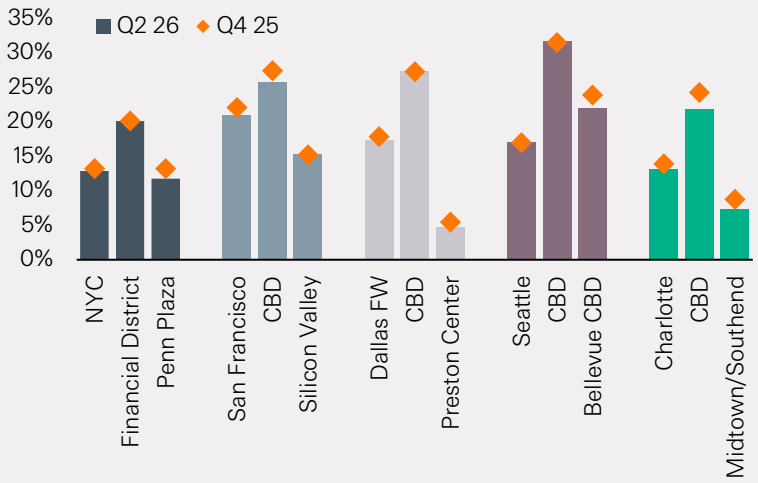
Vacancy rate



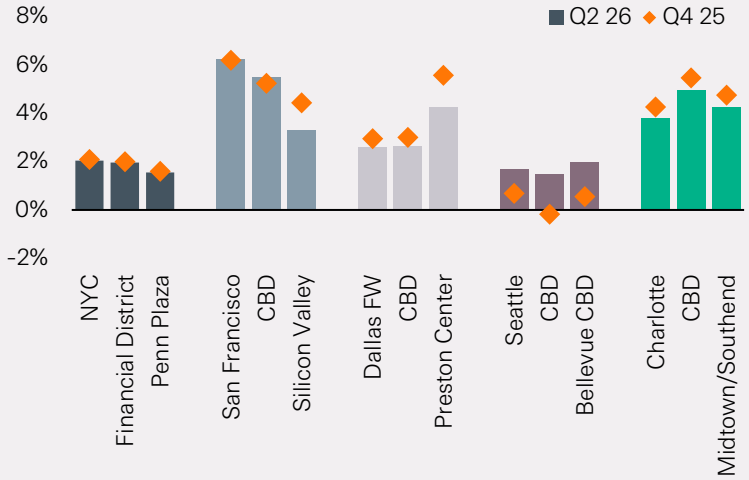
Source: CoStar as of September 30, 2026.

Office – US

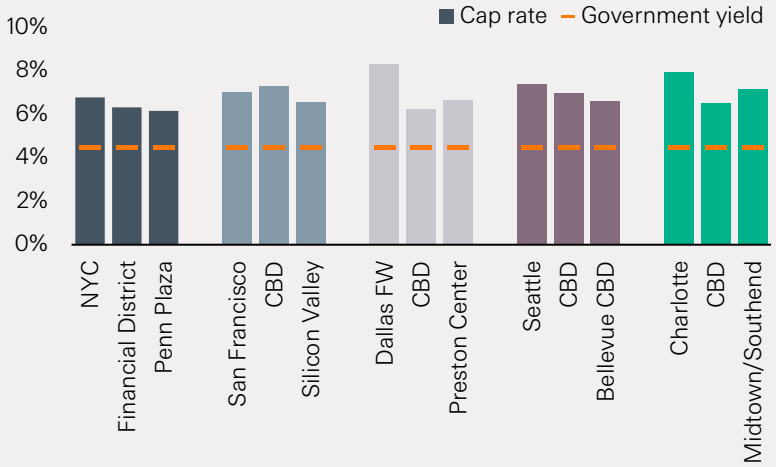
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: high

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Fundamentals improving modestly, with 6-year high in annual net absorption, positive asking rent growth, and declining vacancy Limited supply is a key tailwind, with deliveries at 14-year low. Broader demand picture is uncertain; hybrid work models are sticky, and office utilization is well below pre-COVID levels **Capital markets:** Investment volume rebounding from lows; H1 26 activity at the highest level since 2022. Activity concentrated in select markets like New York, where institutions, REITs, and private buyers are all actively transacting Financing availability is still limited and concentrated in debt funds and CMBS; CMBS volumes are up but led by a handful of large SASB loans in Manhattan **AI impact:** The extent and direction of AI's impact on office remains uncertain. AI is the sector's largest single source of incremental demand, driving the majority of net absorption in markets like San Francisco. AI-driven reduction in white-collar hiring remains the principal threat to office demand	- Class A assets with narrow focus: • Urban core locations adjacent to transit hubs • Differentiated product in supply constrained submarkets • Submarkets with multiple, diverse drivers of office-using job growth - Acquiring existing leased assets at wide cap rates - Heavily reset bases of 'next to lease' assets at high target returns - Structured positions that offer some upside but also some downside protection	- Very big difference between winners and losers and there are far more losers than winners - Class B/C assets in markets with structurally weak demand - Class A or A- assets that are non-differentiated or poorly located - Markets with high potential AI employment displacement and elevated starting vacancy - Overleveraged assets facing near-term refinancing events at elevated current rates

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Office ranges, with CapEx being high and higher

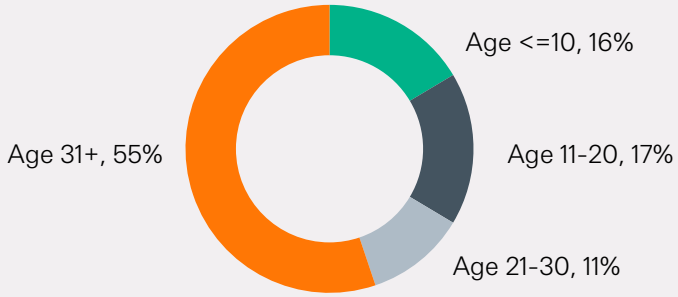
Based on a review of office assets held in US ODCE funds, meant to be high-quality, core assets

Occupancy has high dispersion by market and building age

Items not in green are below national office occupancy of 82% per Green Street

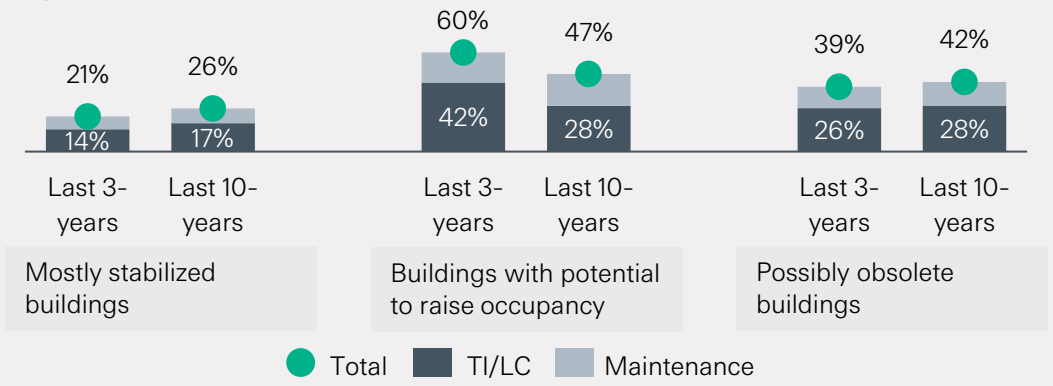
	All	East Coast	West Coast	Other
Age <= 10	87%	99%	84%	86%
Age 11-20	80%	85%	70%	84%
Age 21-30	80%	83%	79%	78%
Age 31+	75%	81%	72%	73%

Nearly 60% of assets are 30 years old



CapEx has been significant, but is lower percent of NOI in stabilized buildings (with more NOI)

CapEx as % of NOI



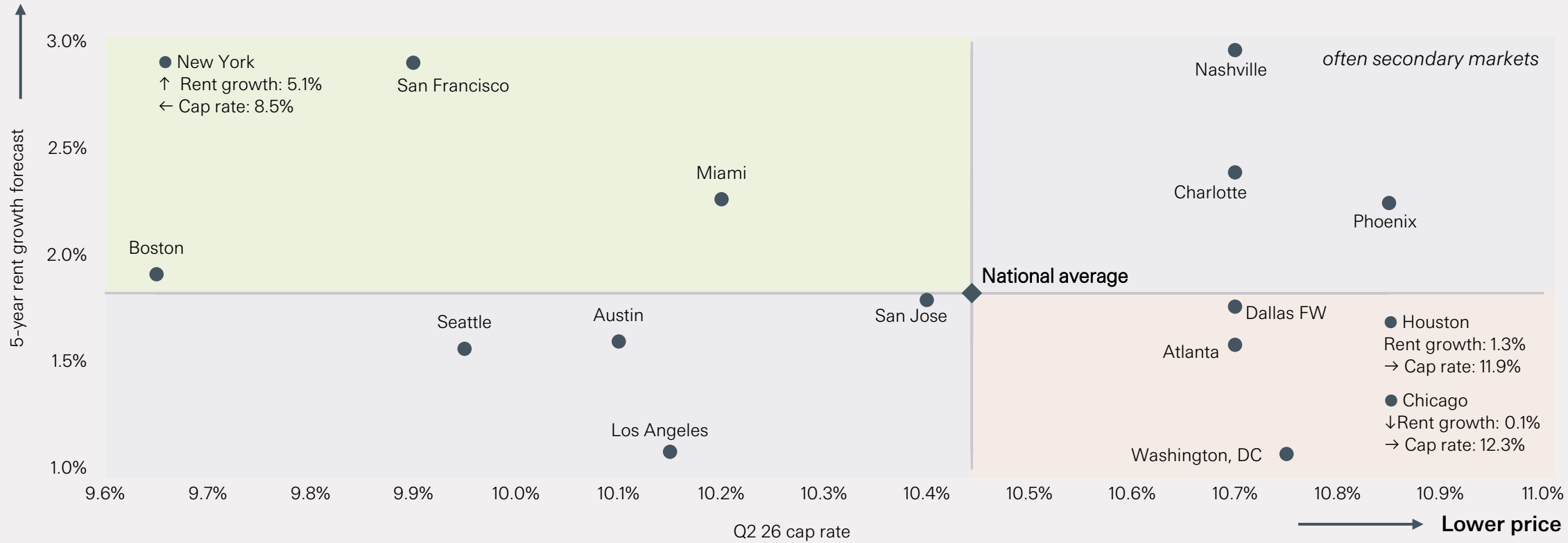
Stronger **coastal markets** and **newer properties** have notably better average occupancy

- **East Coast demonstrates better fundamentals**, with occupancy levels above 80% for assets under 30 years old. For assets over 30 years old, elevated cumulative capex over the last 3 years (approaching ~90% of NOI) reflects proactive efforts to support leasing
- **West Coast outcomes are more bifurcated**. Newer assets continue to perform well, while select markets, such as Seattle, have suffered from a pullback in tech-driven demand that is particularly affecting mid-vintage properties
- In **non-coastal markets**, asset age is the primary driver of performance. Buildings 20 years and younger generally continue to exhibit stable utilization, while older assets show limited evidence of recovery potential
- SRE's projected office sector performance is based on a more granular review of these factors. CapEx as a percentage of NOI is high for many assets and drives weak returns. To facilitate the projections, we grouped properties into the categories on the left table

Source: NCREIF NFI-ODCE, Green Street, as of Q2 26.

Office: big dispersion, pockets of growth

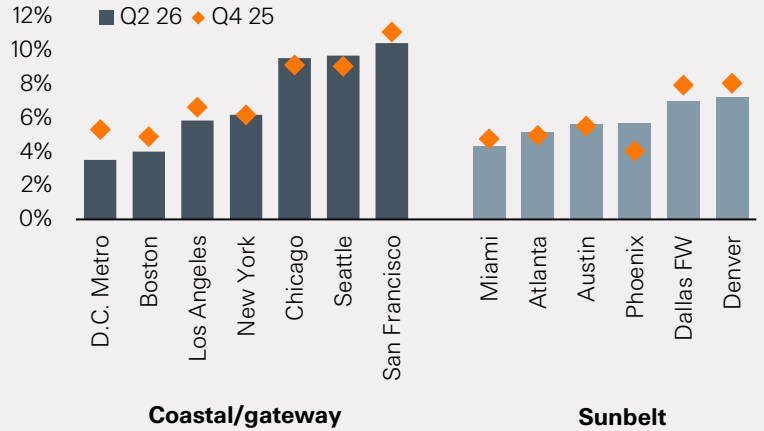
Current cap rate vs 5-year rent growth forecast



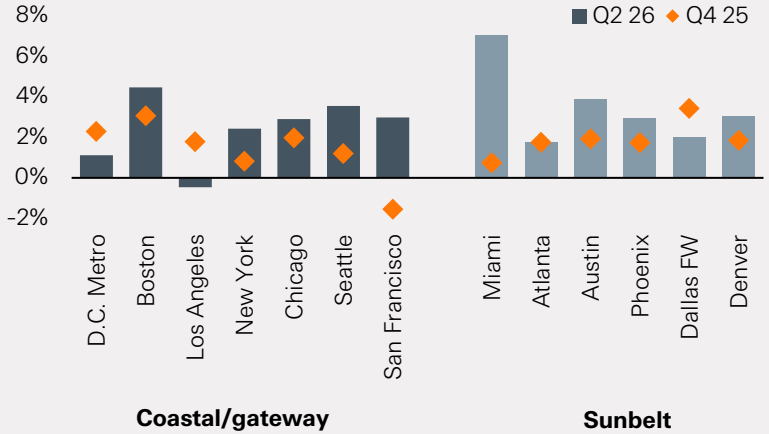
Source: Green Street, Q2 26. 5-year annual rent growth forecast (Q2 26 – Q2 31).

Retail - US

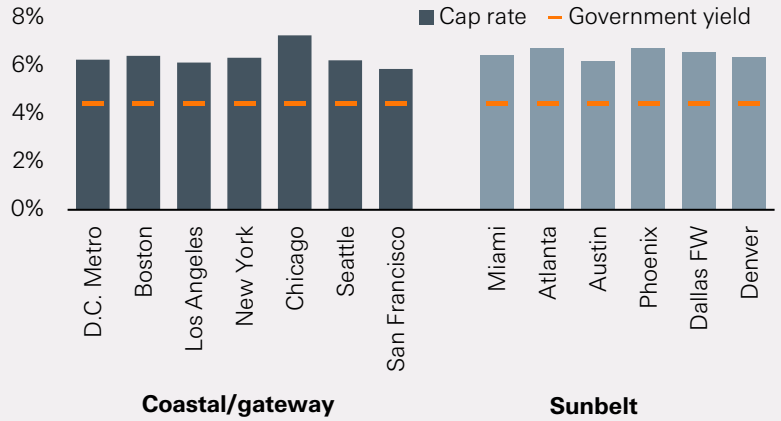
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: low

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals**: Lack of new supply supports stable occupancy and rent growth even as macro environment keeps upward pressure on store closures **Capital markets**: Strong investor demand and debt availability support steady improvement in transaction activity; cap rates stable amid higher interest rate environment	- High-quality, newer vintage assets in growth markets - Stabilized assets with upside levers (e.g. pad developments, select repositioning) - Community centers with mix of convenience and lifestyle - Market leading grocer locations with near-term early renewal / blend-and-extend opportunities	- Large format, prior generation power centers with big-box backfill risk - Locations without proximity to fast growing, affluent, and high-density residential
Downside scenario	**Operating fundamentals**: Occupancy and rent growth deteriorate with more store closures and weak spending, but lack of new supply and relatively healthy retail balance sheets prevent GFC-level declines **Capital markets**: High starting point limits cap rate expansion, overall volumes decline with buyers focused on higher quality assets with longer WALT and credit leases	- Longer WALT assets with investment grade, necessity-based tenancy - Assets anchored by dominant grocer with necessity-based in-line tenancy	- Assets with heavy tenant roll, concentrated tenancy risk and aggressive mark-to-market assumptions - Markets with undifferentiated, significant retail SF per capita

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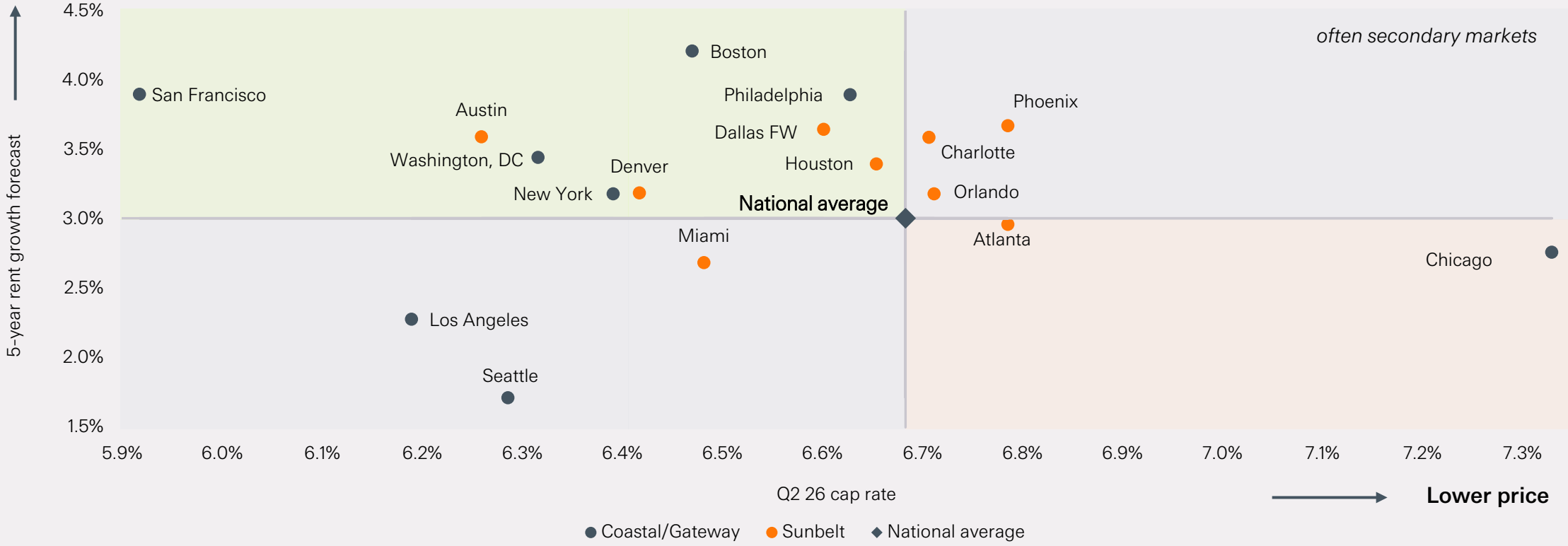
Retail: healthy growth, strong metros getting expensive

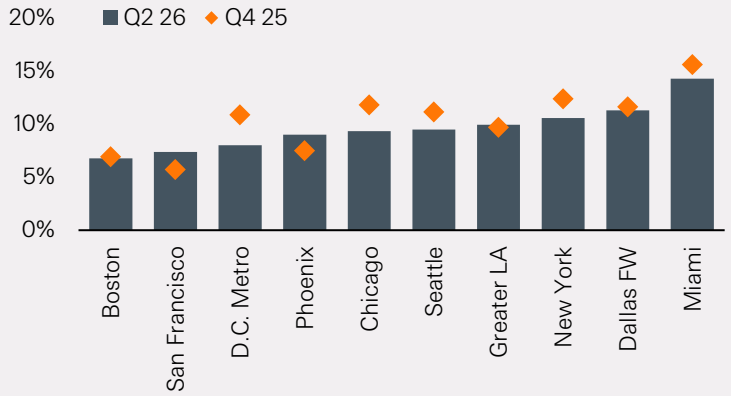
Current cap rate vs 5-year rent growth forecast



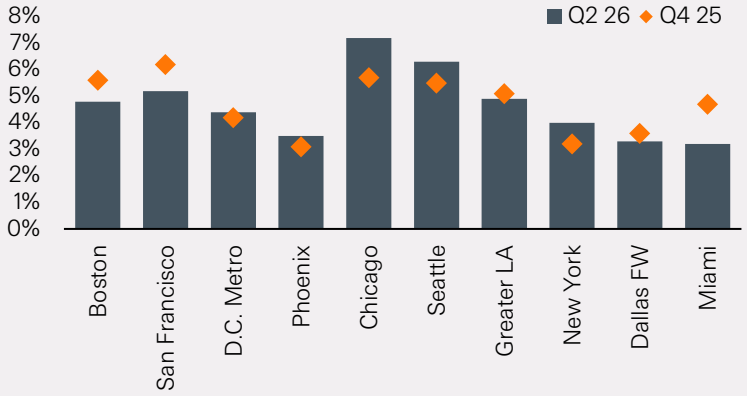
Source: Green Street, Q2 26. 5-year annual rent growth forecast (Q2 26 – Q2 31).

Senior housing - US

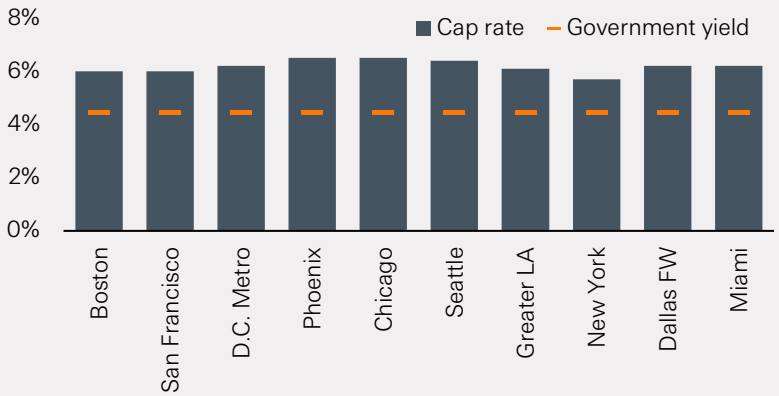
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: low

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Fundamentals remain strong. Four consecutive years of 200+ bps occupancy gains with annual absorption running ~50% above the pre-2020 record and occupancy stabilizing to ~93% by 2028 Demand tailwinds are structural: the 80+ population is entering its steepest growth on record (~5% CAGR through 2030) while construction starts remain near historic lows **Capital markets:** Strong fundamentals have attracted more capital, leading to cap rate compression. Trailing 12-month investment sales up more than 85% YoY as of Q2 26. Higher debt costs remain a headwind, weighing on refinancings and pushing out the timeline for new development to pencil	- Stabilized, class A assets capturing above-inflationary rent growth and a widening quality-tier rate premium - Supply-constrained coastal markets with strong senior affluence and long-run supply barriers (such as zoning, entitlement) - Strong operators, which can drive operating efficiency and NOI outperformance - Shovel-ready class A developments in infill markets, given increasing demand, limited inventory and low pipeline	- Outdated class B/C product and under-invested assets, which falter relative to renovated competitors and eventual new supply - Low barrier markets where new supply can more easily emerge and pressure existing assets - Levered owners facing near-term refinancing amid higher debt costs

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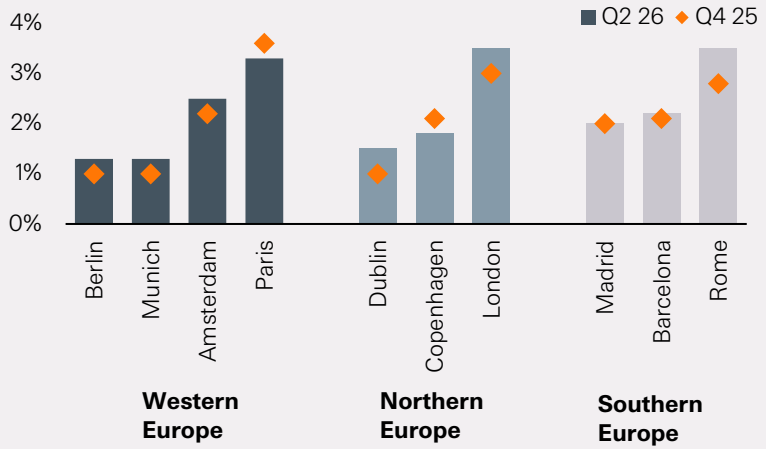
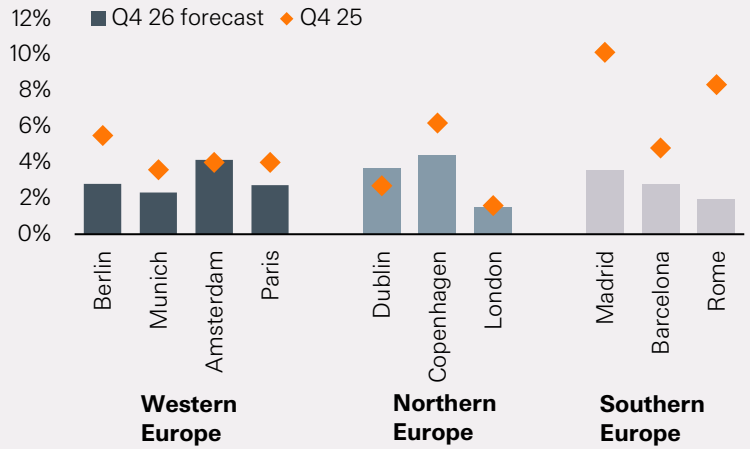
Europe/UK outlook

Multifamily – Europe/UK

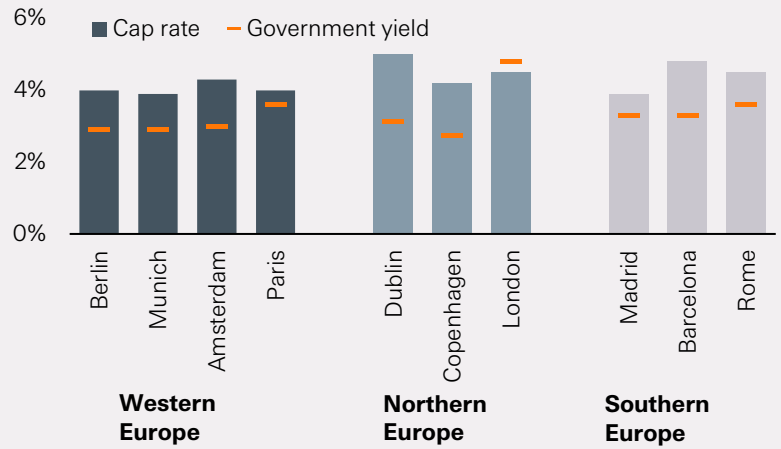
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: low

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals**: Undersupply supports occupancy and collection; rent growth is normalising toward long-run averages, with wide dispersion between markets **Capital markets**: Spike in swap rates results in neutral to negative leverage day 1. Capital is deep but selectively deployed and should support slow but steady transaction markets	- Mid-market product with widest demand pool - Cities with high supply barriers, strong urbanization trends - Dublin, Copenhagen, Amsterdam, Madrid - Brown-to-green strategies in select markets - Recap new assets/portfolios with fund life considerations	- Prime product at top decile rents - Regulation changes mid-investment period - Ground up development - High-end regional UK schemes
Downside scenario	**Operating fundamentals:** Likely modest weakening except in severe downturn. Persistent undersupply should limit occupancy and rent declines **Capital markets**: Severity of downturn, central bank policy will determine impacts. Substantial repricing vs. '21/22 peak should limit the extent of further declines, though thin spreads to bonds could leave continental core exposed to a further rate moves	- Markets with strong fiscal strength (DK, SE, NL, DE, IE) - Markets with strong social safety nets - Affordable housing strategies - Acquire unbroken for-sale assets, reposition to multifamily	- Grade A/prime development - Highly exposed economies with weak supply barriers - Secondary cities - Privatisation and part-sold "Swiss cheese" blocks

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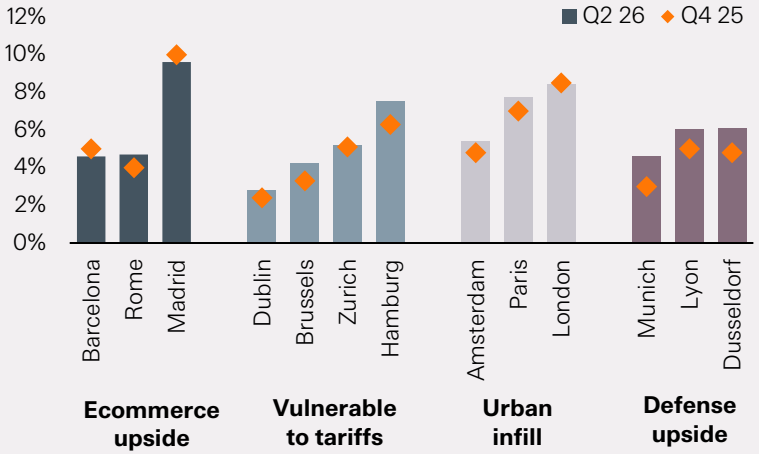
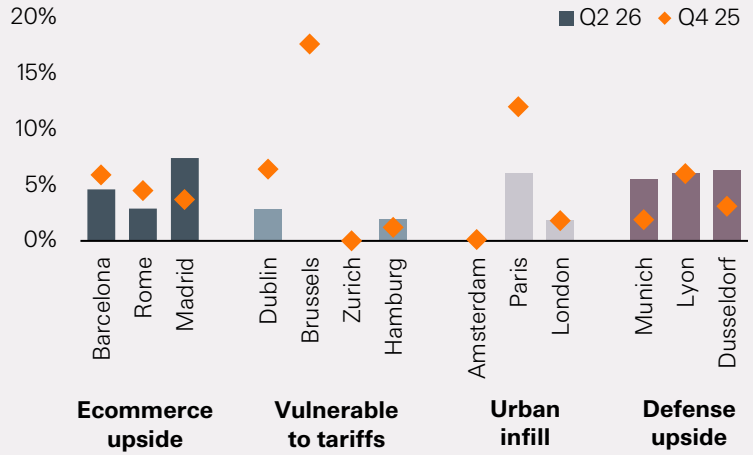
Industrial – Europe/UK

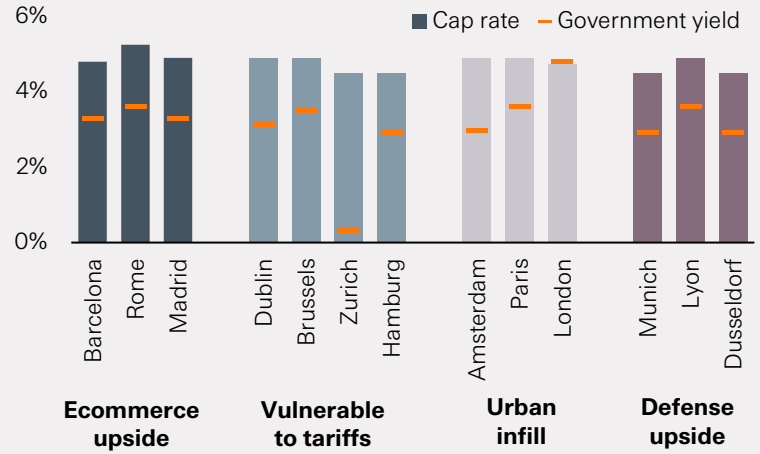
Vacancy rates[1]



YoY rental rate growth[2]



Grade-A cap rates & 10yr govt yields[3]



Distress potential: medium

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals**: Occupier markets partially recovered in Q2/Q3 but pace remains slow as occupiers upgrade rather than expand. Vacancy and rent growth outlooks remain uncertain due to geopolitical environment **Capital markets**: The energy shock and renewed interest/bond rate hikes across Europe are expected to shift prime yields out by >25bps. Transaction volumes are expected to be muted until then with core capital returning to prime assets only selectively	- High-quality, modern assets - Net zero ready facilities - Last-mile, urban infill assets - Supply-constrained markets at record-low vacancy and assets tied to key trade corridors	- Speculative development - B/B+ quality stock in need of modernization - Auto-exposed German / CEE clusters
Downside scenario	**Operating fundamentals**: Weakening depends on severity and duration of the energy shock, with core markets outperforming. Structural demand (ecommerce, defense, nearshoring) and record-low development provide a floor to occupancy and rents **Capital markets**: Extended ECB hiking would force broader repricing – secondary decompression already visible – but stable prime yields and deep institutional demand limit severity; activity pauses rather than collapses	- Longer WALT assets - High barrier to entry markets - Investment grade tenants with sector diversification - Key manufacturing clusters tied to defense	- Secondary, tertiary locations - Energy-intensive occupiers and transport-cost sensitive locations - Markets reliant on auto manufacturing and/or direct US exports

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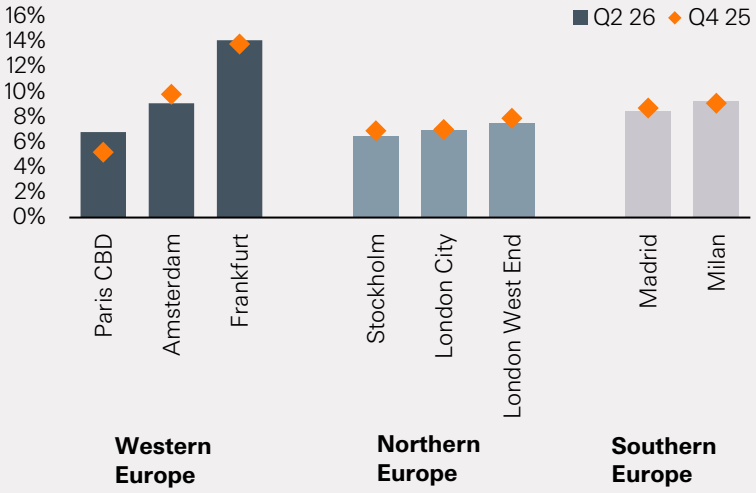
Office – Europe/UK

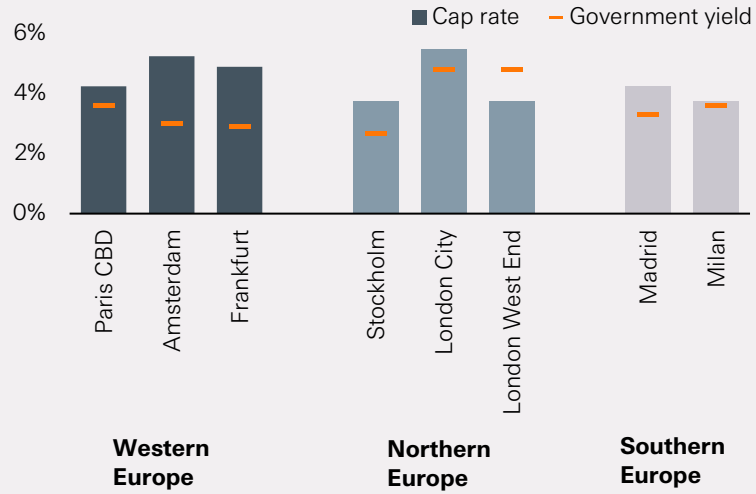
Vacancy rates[1]



YoY rental rate growth[2]



Grade-A cap rates & 10yr govt yields[3]



Distress potential: high

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Overall sentiment continues to improve slowly, driven by limited new supply and repricing since pre-rate rise. However, significant headwinds remain, including potential disruption related to AI and overall macro uncertainty - *Best performing submarkets in Europe remain the Core CBDs of capital cities such as Paris (QCA) and London (West End)* **Capital markets:** Liquidity is concentrated in best quality assets, demonstrating good ESG-credentials with strong credit tenants and longer WALT	- Well-located, highly amenitized Class A office stock with strong ESG credentials - Assets with long WALT and high credit quality tenants - Flexible lease arrangements	- Lower quality, outdated office stock in secondary locations with poor ESG credentials - Assets with high lease-up requirements, short tenant WALTs and / or weak tenant credit quality

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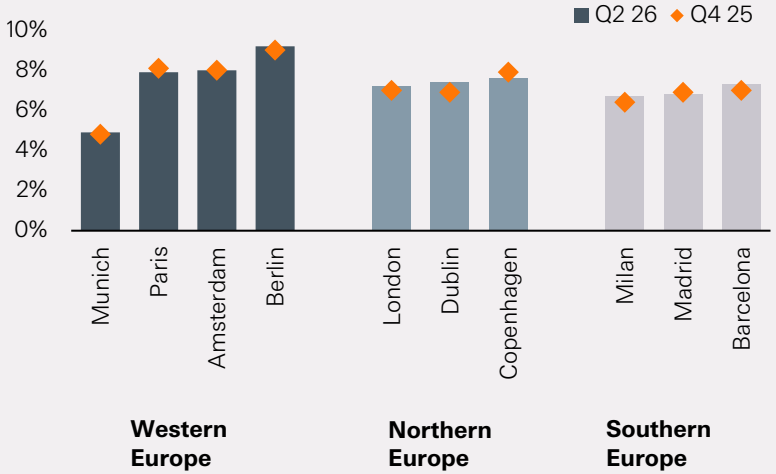
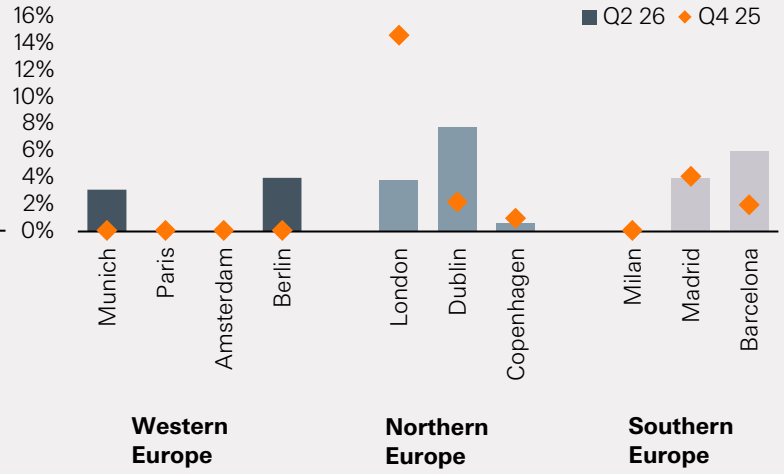
Retail – Europe/UK

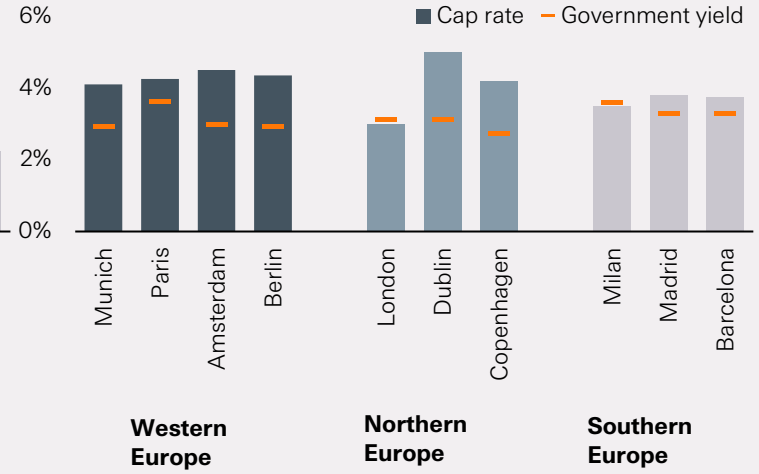
Vacancy rates[1]



YoY rental rate growth[2]



Grade-A cap rates & 10yr govt yields[3]



Distress potential: low/medium

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals**: Rents have rebased, tenant sales are growing, and rent growth is improving (inflationary+ for A/A+ assets) **Capital markets**: Investment volumes increasing as investor confidence improves with core capital back selectively	- Retail parks and grocery anchored assets in established locations - Dominant / prime shopping centers, led by Spain, UK and Italy - Prime high street assets in supply constrained gateways (Madrid, London, Paris)	- Secondary / regional high-street retail - Large format retail parks in B locations - Outdated or non-dominant centers with unfunded capex
Downside scenario	**Operating fundamentals**: A softer consumer dents retail sales resilience; give-backs pressure occupancy and rents, with grocery-led/convenience assets most resilient **Capital markets**: Energy-led inflation forces further ECB tightening, capping compression; yields stay wide as tenant credit weakens, though rebased rents provide floor to values	- Grocery-anchored and necessity retail with defensive, non-discretionary based income - Grade-A / dominant shopping centers in high barrier prime locations with strong-covenant tenants	- Discretionary-heavy rent rolls - Markets characterized by lower profit margins (NL) - Non-core locations with volatile footfall and weaker tenant credit

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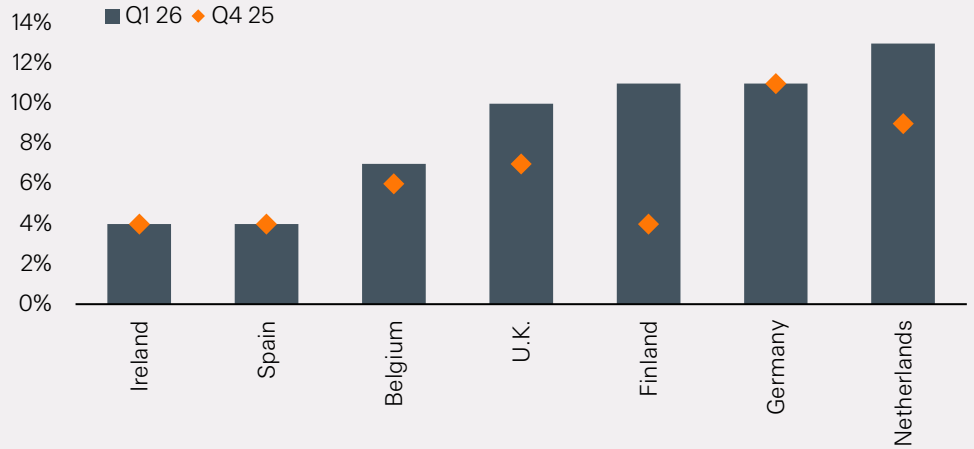
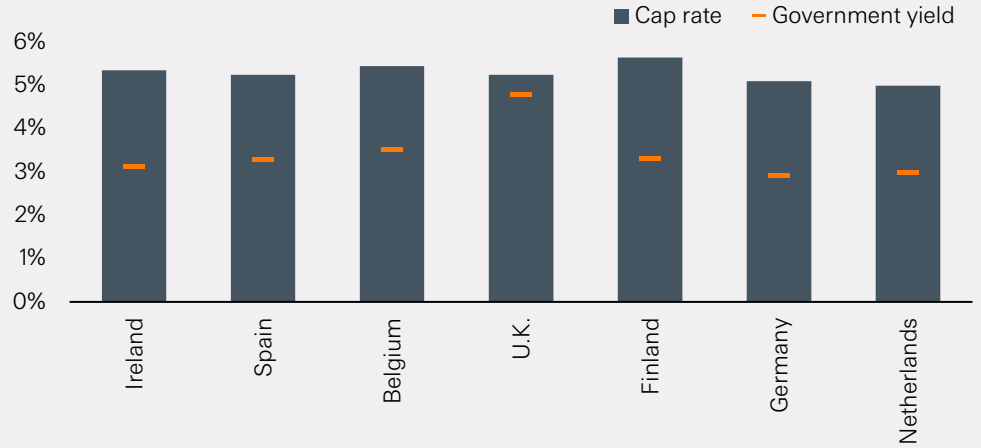
20241204-4065867-12884273

Senior Housing – Europe/UK

Vacancy rates[1]



Grade-A cap rates & 10yr govt yields[2]



Distress potential: low (ex FR)

	Key market trends	Winners	Losers
Baseline	**Operating fundamentals:** Occupancy has returned to pre-pandemic levels, with most Western European markets operating in the high-80s to low-90s and several Southern and Nordic markets back to mid 90s. Supply shortage likely amid competitive land acquisition process. Opportunity for long-term secured rental income stream, with additional revenues from top-up services **Capital markets:** Strong demand growth and demographic tailwinds have led to significant investor interest, driving record-high transaction volumes. Understanding local funding systems and lease standards is crucial to assessing relative value between markets	- UK: Strong pricing power and low net new bed supply - Nordics: Significant shortage of care homes despite a rapidly aging population, supported by advanced welfare systems - Spain: Acute supply shortage and low cost per bed - Partnering with the right local operating partners important to mitigate country-specific risks in highly regulated business	- Germany: Tough regulatory environment with differing legislation for each individual federal state. Staffing shortages driving lower occupancy - France: Growth limited by strict regulation on new care bed approvals. Market dominated by public sector and non-profit institutions. Lease terms typically shorter and less landlord friendly vs rest of Europe

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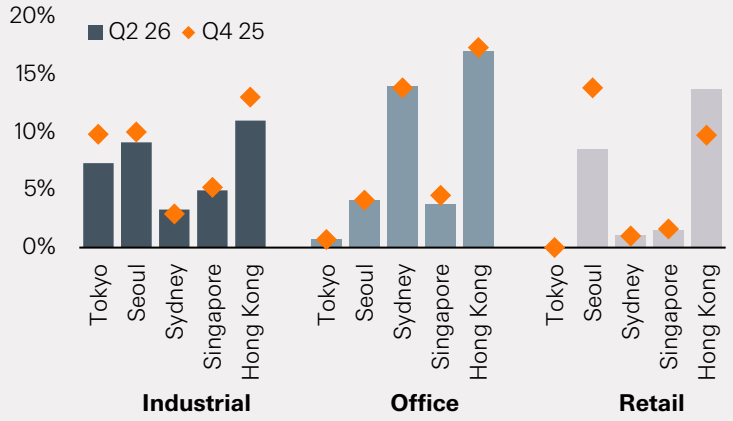
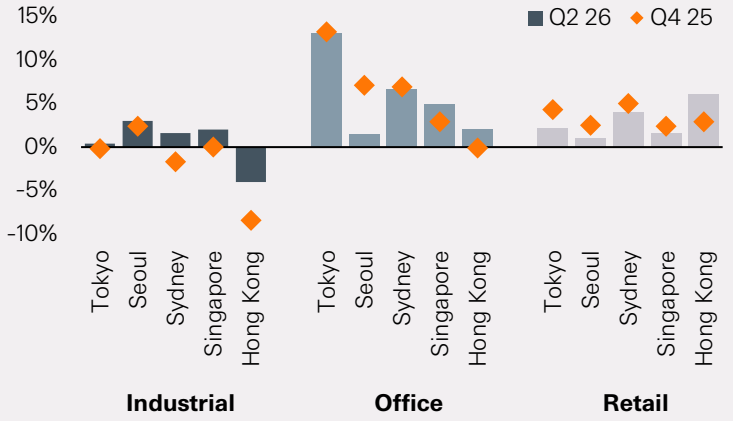
APAC outlook

APAC property sectors – baseline

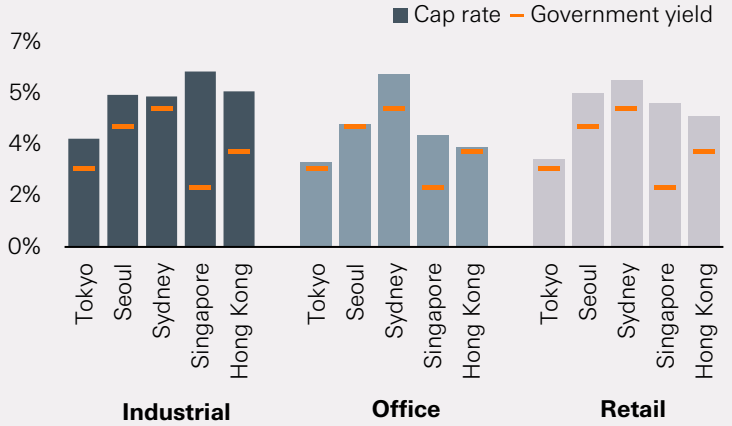
Vacancy rates[1]



YoY rental rate growth[1]



Grade-A cap rates & 10yr govt yields[2]



	Key market trends	Winners	Losers	Distress potential
Multifamily	**Operating fundamentals**: In Tokyo, fundamentals are strong with wage growth supporting rent growth. In Australia, despite supportive fundamentals and policy, institutional build-to-rent remains nascent as high construction costs limit feasibility **Capital markets**: In Japan, further rate hikes and higher 10-year JGB yields may result in mild cap rate expansion. In Australia, higher for longer interest rates are compressing development margins, and along with recent tax reforms, are weighing on residential market sentiment	- Well-located assets near public transportation - Tokyo	- Development assets facing cost overruns and delays in Australia	Low
Industrial	**Operating fundamentals**: In Tokyo, vacancy is trending downward following 2025 supply peak. In Australia, new supply is driving slight uptick in vacancy and weighing on rent growth **Capital markets**: In Tokyo, yields remain tight for well-located assets while weaker submarkets saw mild expansion. Investor caution and drop in large-scale deals drove sharp YoY decline in transaction activity in Australia	- Modern assets in prime locations - Infill locations with limited new supply	- Speculative development in oversupplied submarkets	Low
Office	**Operating fundamentals**: In Tokyo, limited vacancy and strong precommitments support high rent growth. In Sydney, prime rents grew meaningfully while vacancy remains elevated in secondary locations **Capital markets**: Japan's most active sector; strong YoY transaction growth. Prime Sydney yields compressed (1st time in current rate cycle); weaker demand for secondary locations	- Well-located assets in Seoul and Tokyo/Osaka	- China and secondary locations in Hong Kong - Secondary locations in Melbourne and Sydney	Low in Japan / Seoul High in China and Hong Kong

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Other property types

Other rental housing sectors

Sector	Commentary	Distress potential
Manufactured housing	**US:** - Affordability and near-nonexistent new supply have resulted in strong fundamentals. Investors need to be aware of each market's potential for changes in regulation - Strong capital markets activity. Steady demand for individual assets by non-institutional and institutional buyers, with institutional capital seeking defensive core returns for stabilized high-quality assets / portfolios. Difficult to achieve outperformance at scale	Low
Single family rental	**US:** - Following the passing of the 21st Century Road to Housing Act with bipartisan support, there is more clarity on the regulatory risk to the single-family rental industry (although final language still TBD). Scattered site single family and build-to-rent asset classes are bifurcating into separate asset classes with the outlook for BTR favorable and SFR more uncertain **US & UK:** - Demand supported by high costs of home ownership and limited supply of homes listed for sale (due to "locked-in" effect) - Unproven liquidity, at scale, for stabilized assets in the UK, due in part to underwritten exit yields sitting below borrowing costs	Medium
Student housing	- **US:** Delivery of new supply and affordability weighing on rent growth and occupancies for current academic year. Opportunities are very market specific. New construction starts remain elevated in low barrier to entry markets. Capital markets environment is liquid with strong investor and lender demand - **Europe/UK:** Investment activity remains high. Supply constrained due to high construction costs and planning policies. Affordability constraints and visa policies are driving market bifurcation. Softening is apparent in the UK, with demand remaining solid around top universities but weakening around lower quality; some markets facing oversupply - **APAC:** Australia continues to be the most active student housing market in APAC. Hong Kong is undersupplied due to strong demand from mainland Chinese students following a new, higher cap on non-local students at public universities; however, exit is a concern	Low

Overweight Neutral Underweight

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Alternative sectors

Sector	Commentary	Distress potential
Data centers	- **US**: Barriers to securing power in cloud-capable, core markets drive scarcity and valuation. Potential risk to exclusively AI-focused data centers in tertiary markets as tenant requirements evolve. Focus primarily on powered shell executions with hyperscaler credit - **Europe/UK**: Core markets remain fundamentally attractive, but strained power grids across FLAPD hubs are driving spillover hyperscaler deployment and investment into tier-2 markets with strong grid capacity and land availability, notably Oslo, Milan, Madrid, Gothenburg and Berlin - **APAC**: Hyperscaler build-to-suit / development projects in established markets remain the preferred strategy even as hyperscalers' strong bargaining power often yields thinner margins and limited rental growth. Space and power constraints are shifting investment activity toward emerging markets, which introduces risks related to weaker leasing, construction delays, cost overruns, and systemic and regulatory uncertainties	Low
Life sciences	- **US**: Fundamentals remain challenged due to weak demand, sublease availability, and new supply. Oversupply remains significant; new deliveries continue due to long development timelines. Limited investor and lender demand; credit build-to-suit developments continue to be capitalized - **Europe/UK**: Capital flow dominated by specialist investors in the sector. Continental Europe is more supply constrained vs UK. Main underwriting concern relating to increasing office / dry lab space components in these assets. Tailwinds include government support, race to discover new drugs and new occupier demand from AI labs - **APAC**: Growing institutional interest across the region, particularly in Australia and Japan, driven by favorable demographic trends and government support	High
Medical office	- **US**: Strong transaction volume through H2 26 with private equity representing the largest buyer group. Higher-acuity products (e.g. Inpatient Rehab Facilities / "IRFs") have gained investor attention and further institutional investment, compressing cap rates closer to traditional MOB. Lenders are active; competition is driving spread compression. Re-leasing rents, particularly at the top end of the market, continue to demonstrate strong growth and the supply pipeline remains muted and largely pre-leased	Low
Self storage	- **US**: Operations have stabilized with positive absorption of existing physical vacancy. Oversupplied markets are underperforming higher barrier markets. Continued institutional demand for well-located assets; multiple large portfolio transactions closed over the trailing 12 months. Debt availability from banks, insurance companies, and debt funds - **Europe/UK**: Strong interest but subdued transaction activity due to bid-ask spread. Aggregation strategies focused on conversion of vacant retail/industrial assets or development of best-in-class product with operators focused on data-led strategies, scale and technology - **APAC**: Australia, Hong Kong, and Japan lead market activity. Investors focusing on aggregation strategies. Ownership remains fragmented compared to Western markets	Medium
Hotel	- **US**: Near-term demand growth expected to stagnate, driven by weakening consumer and softening travel trends. Elevated labor costs present risk of further margin compression - **Europe/UK**: Top-line growth slowing, low single digit ADR led growth expected, with occupancy remaining flat post a strong recovery. Geographic and segment bifurcation apparent, with Southern Europe and Luxury outperforming. Margins under pressure from higher staff and energy costs, partially offset by stricter short-term rental rules and limited supply - **APAC**: Inbound tourism in Japan reached a new high in 2025 despite a decrease in arrivals from China. Japan remains the leading investment destination in APAC. In Korea, record inbound tourism has lifted operating performance and driven a sharp rebound in transaction volume, though liquidity remains concentrated in central Seoul	Medium

Overweight Neutral Underweight

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RISKS AND OTHER CONSIDERATIONS

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

Restrictions on Transfer and Withdrawal; Illiquidity of Interests; Interests Not Registered. The investment is highly illiquid and subject to transfer restrictions and should only be acquired by an investor able to commit its funds for a significant period of time and to bear the risk inherent in such investment, with no certainty of return. Interests in the investment have not been and will not be registered under the laws of any jurisdiction. Investment has not been recommended by any securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this document.

Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

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Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

Taxation. An investment involves numerous tax risks. Please consult with your independent tax advisor.

Conflicts of Interest. Conflicts of interest may arise between StepStone and investors. Certain potential conflicts of interest are described below; however, they are by no means exhaustive. There can be no assurance that any particular conflict of interest will be resolved in favor of an investor.

Allocation of Investment Opportunities. StepStone currently makes investments, and in the future will make investments, for separate accounts having overlapping investment objectives. In making investments for separate accounts, these accounts may be in competition for investment opportunities.

Existing Relationships. StepStone and its principals have long-term relationships with many private equity managers. StepStone clients may seek to invest in the pooled investment vehicles and/or the portfolio companies managed by those managers.

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Other Activities. Employees of StepStone are not required to devote all of their time to the investment and may spend a substantial portion of their time on matters other than the investment.

Material, Non-Public Information. From time to time, StepStone may come into possession of material, non-public information that would limit their ability to buy and sell investments.

Responsible Investment Integration. While StepStone seeks to integrate certain Responsible Investment ("RI") factors into its investment process and firm operations, there is no guarantee that StepStone's RI strategy will be successfully implemented or that any investments or operations will have a positive RI impact. Applying RI factors to investment decisions involves qualitative and subjective decisions and there is no guarantee the criteria used by StepStone to formulate decisions regarding RI, or StepStone's judgment regarding the same, will be reflected in the beliefs or values of any particular client or investor. There are significant differences in interpretation of what constitutes positive RI impact and those interpretations are rapidly changing. The description of RI integration herein is provided to illustrate StepStone's intended approach to investing and firm operations; however, there is no guarantee that the processes will be followed in every circumstance or at all.

Performance Information. No investment decisions may be made in reliance on this document. In considering performance information herein, readers should bear in mind that past performance is not indicative of future results and that actual results may vary. There can be no assurance that any StepStone fund will be able to successfully implement its investment strategy or avoid losses. Performance shown herein may include investments across different StepStone funds. The aggregate returns are not indicative of the returns an individual investor would receive from these investments. No individual investor received such aggregate returns as the investments were made across multiple funds and accounts over multiple years.

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